

# **BiH Economic Update**

**2000 – First Quarter  
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## **Preface**

This Quarterly Economic Update summarizes key economic indicators for the Bosnia and Herzegovina, and analyzes their trends. The sources of statistical information are the Federation and the Republika Srpska (RS) Statistical Institutes, the EC-funded Customs and Fiscal Assistance Office (CAFAO), the Central Bank of Bosnia Herzegovina (CBBH), Federal Institute for Development Programming, RS Customs Department, IMF (Direction of Trade Statistics), World Bank and incidental data sources.

Data should be used with caution and interpreted carefully. Important statistical series are missing due to the lack of resources necessary for data collection and surveys. The existing series suffer from serious coverage, methodological and reporting gaps. Furthermore, statistical reports are not user-friendly: redundant statistics are published, reporting formats are often unusual and frequently changing.

The gross domestic product (GDP) figures are only estimates, as they cannot be calculated with any degree of accuracy since production, income, or expenditure is not fully covered. In general, the real-sector data underreport the size of the economy, due to the lack of data on the “shadow economy”. At the same time, capital and labor incomes are underreported even in registered businesses; and household consumption is difficult to estimate, as no household budget surveys have been carried out, and, foreign trade is underreported.

## I. Recent Trends

After four years of double-digit (real) growth in gross domestic product (GDP), driven mainly by donor-financed physical reconstruction and economic reactivation operations, growth returned to single-digit figures in 1999. Growth in 1999 was, in fact, entirely fueled by transfers from abroad and capital inflow (from official sources). The question now is whether BiH will again experience exceptional performance in 2000 or whether the growth rate is converging towards the long-term *natural* rate than one can expect for a lower middle-income country characterized by repression of Economic Freedom. The outcome for 2000 will depend on the willingness of the international community to finance the Current Account deficit as well as on the pace of market liberalization, removal of barriers to business development and kick-starting real restructuring of large loss-making enterprises.

With only four months into 2000, it is premature to make a firm forecast about growth. All indicators suggest solid growth in the Federation (probably at an annual rate of over 10%). The Balance of Trade deficit for the Federation increased by a dramatic **59%** in the first quarter of 2000 (compared to same period in 1999). In the RS, indicators suggest more moderate growth (below an annual rate of 10%); industrial production in the first quarter of 2000 is up 3.4% from the same period in 1999 while the Balance of Trade deficit for the RS increased by only **4.5%**.

**Federation.** Industrial production advanced by 21.5% in the period January to April of 2000 compared to the same period in 1999. This result can be entirely attributed to the excellent performance recorded in January and February; however, in March and April, growth started to level off. Construction activity, transport (of goods), production of the electrical power industry and forestry production all show double-digit growth in the first quarter of 2000. Income growth is not (yet) inducing employment growth as registered employment stands only 1% higher than in the first quarter of 1999. Tax revenue is 12.6% higher in the first quarter of 2000 compared to the same period in 1999.

The industrial sub-sectors registering the weakest performance are (January-April 2000 compared with same period of 1999): mining (-5.2%), wearing apparel (-13.7%), chemicals (-31%), electrical machinery (-31.1%).

The industrial sub-sectors registering the strongest performance are (January-April 2000 compared with same period of 1999): tobacco products (+14.6%), food and beverages (+11.8%), manufacture of pulp/paper/paper products (+43.3%), rubber and plastics products (+12.2%), basic metals (+63.8%), machinery other than electrical (29.1%), manufacture of motor vehicles (44%).

In March 2000, net wages were 9.2% higher than in March 1999. The retail price index (April) fell marginally (-0.1%) compared to April 1999.

The Federal Institute of Statistics reports **Inter-Entity trade**<sup>1</sup>. In the first quarter of 2000, KM 27.6 million worth of goods has been traded between the Entities (down from KM 44.4 million in the last quarter of 1999). Although the trend is upwards (and official data are believed to underreport the real level of trade between the Entities), inter-Entity trade is dwarfed by foreign trade. External trade of BiH (export plus import of Federation and RS) amounted to KM 1,786 million in the first quarter of 2000.

**Table 1: Recent Economic Trends in the Federation**

Category	Measurement	1999 (1998)	Month to month	year to year
<b>Industrial Production</b>	Index	10.6 % (23.8%)	- 3.8 % (Apr 00)	14.4 % (Apr 00)
<b>Construction activity</b>	Effective hours worked	-8.4 % (17.5%)	32.9 % (Apr 00)	23.8 % (Apr 00)
<b>Electricity production</b>	Index	1.4 % (13.6%)	- 9.5 % (Apr 00)	26.2 % (Apr 00)
<b>Goods transported by road</b>	ton-km	-9.5 % (21.4%)	19.5 % (Mar 00)	18.6 % (Mar 00)
<b>Forestry production</b>	m3	13 % (19.8%)	20.4 % (Mar 00)	6.3 % (Mar 00)
<b>Retail price index</b>	Index	-0.9 % (5.1%)	- 0.1 % (Apr 00)	- 0.1 % (Apr 00)
<b>Net wages</b>	KM	13.8 % (23.8 %)	0.3 % (Mar 00)	9.2 % (Mar 00)
<b>Net wages (average)</b>	KM (absolute figures)	374 (329)	399 (Mar 00)	
<b>Employment (average)</b>	Number (***)	407,754 (395,445)	411,595 (Mar 00)	
<b>Unemployment (average)</b>	Number (***)	262,971 (240,100)	264,828 (Mar 00)	
<b>Imports (Value : US\$) (1)</b>			-24.5 % (*)	65.6 % (**)
<b>Imports (Value : KM) (2)</b>	Million KM	2,431 (2,120)	- 29.2 % (*)	14.6 % (**)
<b>Import excise on oil products</b>	KM	1.4 % (12.4%)	- 7.3 % (Apr 00)	- 1.6 % (Apr 00)
<b>Tax revenue (2)</b>	Million KM	1750.8 (1672.5)	- 38.8 % (****)	12.6 % (****)

**Notes :**

(\*) Q1-00 compared to Q4-99

(\*\*) Q1-00 compared to Q1-99

(\*\*\*) Employment includes 'waitlisted' while unemployment does not include the 'waitlisted'

(\*\*\*\*) Q1-00 compared to Q4-99

(\*\*\*\*\*) Q1-00 compared to Q1-99

(1) Source : Federation Institute of Statistics

(2) Source : CAFAO

<sup>1</sup> According to Decrees issued by the Federation (August 1998) and the RS (October and November 1998), inter-Entity traded has to be registered. The Federation Decree stipulates that the trader must file a report to the Canton authority competent for trade. The report will contain the following information: identification of the trader in the Federation, identification of the trader in the RS, commodity data (description and quantity of commodities, KM value, method of payment, origin of commodity, date of delivery), other data (number and date of delivery form, number and date of invoice, number and data from the purchase order, number and date of bill of lading and registration plates of the vehicle transporting the commodities). The following documents are to be attached to the report: a certified photocopy of the court registration decision, a photocopy of the issued or received invoice, a photocopy of the delivery form for the issued or received commodities, certified and signed by the recipient of commodities or the recipient of services. Clearly, this Decree is in contradiction with the principle of a *single* economic space. In February 2000 the RS annulled the Decree but the regulation is still upheld in the Federation.

**Republika Srpska.** The picture is blurred in the RS. Industrial production in the first quarter of 2000 is just 3.4% up from the same period in 1999. Electricity production and transports (of goods) are equally disappointing. Wood processing production shows a significant increase. There exist no recent data about construction activity but production of building materials is vigorous, suggesting that construction demand is strong.

The under-performing industrial sub-sectors in the RS are (January-March 2000 compared with same period of 1999): iron and steel basic industry (-13.4%), extraction of nonmetallic minerals, machinery (-24.4%), transport equipment (-14.9%).

The industrial sub-sectors registering the strongest performance are (January-March 2000 compared with same period of 1999): nonferrous metals production (+30.1%), fabricated metal products (+18.8%), electrical machinery (+12.6%), basic chemical products (+14.1%), building materials (+68.3%), finished wood products (+17.8%), textiles (+33.3%), food processing (+25.3%), beverages (+17.6%).

Public Revenue for the first quarter of 2000 is 40% higher compared to the same period in 1999.

Net wages (average recorded for January-March 2000) is about 25% higher than in the same period of 1999, in essence because of a huge jump of 22.7% in March 2000 compared to the previous month.<sup>2</sup>

Quite some uncertainty exists about the underlying inflationary trend in the RS. The RS Statistical Agency still reports a price increase, for 1999, of 15%. This is explained by the fact that manufacturers and traders in the RS were forced to switch from cheap suppliers in Yugoslavia to more expensive suppliers elsewhere. Therefore, prices in the RS have been catching up with prices in the Federation (which did not trade with Yugoslavia). However, even if this 'Yugoslavia'-effect would explain the price increase for manufactured, intermediary and finished goods, an overall inflation rate of 15% seems overstated. Indeed, comparing retail prices for fifty goods, between December 1998<sup>3</sup> and December 1999, we find that both average and median price actually fell. Price decreases outscored price increases by 43 to 7. Between March 2000 and December 1999, prices remained again stable (on average) with 34 price decreases against 16 price increases recorded. Whatever the reality has been, retail prices in March 2000 were up by only 0.1% compared to the previous month.

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<sup>2</sup> It is more likely that net wages are around 15% higher than in 1999. The extraordinary increase in March 2000 may have to do with wage arrears paid out that month. The Statistical Agency in Banja Luka indicated that payments of net wages are NOT filtered from payments of wage arrears.

<sup>3</sup> Prices were then still recorded in Yugoslav Dinars. The exchange rate (December 1998) used for converting dinar prices into KM is 1 KM = 6 YUD (official rate used by the Statistical Agency).

**Table 2 : Recent Economic Trends in the RS**

Category	Measurement	1999 (1998)	Month to month	year to year
<b>Industrial Production</b>	Index	1.6 % (23.5%)	24.5 % (Mar 00)	8.6 % (Mar 00)
<b>Construction activity</b>	Effective hours worked	14.6 % (34.9%)	10.5 % (Dec)	10.8 % (Dec)
<b>Electricity production</b>	Index	15.6 % (n.a.)	16.3 % (Mar 00)	- 29.5 % (Mar 00)
<b>Goods transported by road</b>	ton-km	-6.4 % (20.8%)	35.3 % (Mar 00)	1.2 % (Mar 00)
<b>Forestry production</b>	m3	20.1 % (-4.8%)	27.2 (Mar 00)	19.6 % (Mar 00)
<b>Retail price index</b>	Index	15.1 % (37.9%)	0.1 % (Mar 00)	15.8 % (Mar 00)
<b>Net wages</b>	KM	53.4 % (61.9%)	22.8 % (Mar 00)	47.8 % (Mar 00)
<b>Net wages (average)</b>	KM (absolute figures)	216 (141)	291 (Mar)	
<b>Employment (average)</b>	Number		250,000 (Jan 99)	
<b>Unemployment (average)</b>	Number (*)	146,496 (142,834)	147,497 (Dec 99)	
<b>Imports (Value : KM) (1)</b>	Million KM	1,589	- 25.4 % (**)	8.1 % (***)
<b>Import excise on oil products</b>	KM	-30 %	1.4 % (Mar 00)	0.4 % (Mar 00)
<b>Public revenue (2)</b>	Million KM	521.2 (434.0)	- 34 % (**)	39.5 % (***)

**Notes :**

(\*) The RS Statistical Institute uses the concept of 'Persons Seeking Employment' (registered at the Employment Bureau); 'waitlisted' are thus excluded from the count.

(\*\*) Q1-00 compared to Q4-99

(\*\*\*) Q1-00 compared to Q1-99

(1) Source : Customs Administration

(2) Source : CAFAO

**Table 3 : Recent Trends in Money Supply and Trade in BiH**

Category	Unit	1999 (**)	month to month	year to year
<b>Broad Money (M2) (*)</b>	KM		<b>2.2 % (Feb-00)</b>	<b>43.5 % (Feb-00)</b>
<b>Money (M1) (*)</b>	KM		<b>3.4 % (Feb-00)</b>	<b>249.7 % (Feb-00)</b>
<b>Imports (**)</b>	US\$	<b>0.4 %</b>		<b>-3.9 % (***)</b>
<b>Exports (**)</b>	US\$	<b>12.3 %</b>		<b>20.3 % (***)</b>

**Notes :**

(\*) Source : Central Bank (CBBH)

(\*\*) Source : IMF, Direction of Trade Statistics (excludes FRY); first 9 months 99 compared to first 9 months of 98

(\*\*\*) Q3-99 compared to Q3-98

## II. National Income and Economic Activity

### A. National Income

GDP estimates for 1999 are due for mid-2000. Annual GDP per capita in BiH reached US\$ 1,089 in 1998, one-half of the pre-war level. Thus, BiH just manages to belong to the league of lower middle-income countries.

On the expenditure side, statistics are virtually absent. However, according to official data, World Bank, and IMF statistics<sup>4</sup> investment (1998) amounted to 38% of GDP (of which 20% was Public Investment) and consumption amounted to 99% of GDP. Public Sector Expenditures amounted to 52% of GDP. As Public Revenue reached 32% of GDP, external financing covered the deficit.

According to *Federation* data for 1998, gross fixed capital formation (GFCF) in agriculture/forestry and fishing amounted to only 0.6% of Federation GDP. GFCF in manufacturing and mining amounted to 4.4% of GDP. Figures for the electricity sub-sector are 4.8%, trade 4.1% and transport/communication 3.1%.

#### **Box:** car ownership

Household consumption and welfare levels in BiH are higher than 'official' GDP per capita would suggest. In 1999, 444,194 road vehicles were registered, 29% more than in 1998. Eighty percent of these vehicles are passenger cars. On a per 1,000 inhabitants basis this gives 193.3 vehicles (154 passenger cars). There are 223 vehicles per 1,000 inhabitants in the Sarajevo Canton and 369 vehicles in the Western Herzegovina Canton. This compares with 34 in a sample of developing countries<sup>5</sup> and 356 in a sample of high-income countries. In the EU (1996) there were 447 passenger cars registered (per 1,000 inhabitants) and an estimated 560 vehicles (including buses and trucks). Greece had a low 224 passenger cars and Luxembourg a high 559 passenger cars. Equivalent figures are 506 (USA), 196 (Croatia), 234 (Bulgaria), 124 (Romania).

The road network in BiH is about 22,600 km, all categories combined. This is equivalent to 0.43 road kilometers per square kilometer of land area (double the figure of developing countries but less than one third the average in high-income countries) and 6.1 meters of road per capita (compared to 3.7 meters per capita in developing countries and over 15 meters per capita in high-income countries).

<sup>4</sup> Reported in "Bosnia and Herzegovina : Enterprise and Bank Privatization Adjustment Credit", WB, June-1999.

<sup>5</sup> "Motorization and Road Provision in Countries and Cities", G.K. Ingram and Z. Liu, World Bank Working Paper, 1998.



**Table 4 : GDP**

Legal Entity	Unit	1995	1996	1997	1998	1999
<b>BiH</b>						
<i>Nominal GDP</i>	million KM	2,873	4,189	5,808	6,970	7935 (est.)
<i>Nominal GDP per capita</i>	KM	785	1,149	1,591	1,884	
<i>GDP per capita growth</i>	%		46.4 %	38.5 %	18.4 %	
<i>Current Account deficit</i>	% of GDP	9.6-10.2 %	26.9-27.2 %	30.6-38.8 %	25.5-29.4 %	
<b>Federation</b>						
<i>Nominal GDP</i>	million KM	1,962	3,049	4,189	5,133	
<i>Nominal GDP per capita</i>	KM	868	1,353	1,862	2,281	
<b>RS</b>						
<i>Nominal GDP</i>	million KM	911	1,140	1,619	1,837	
<i>Nominal GDP per capita</i>	KM	651	814	1,156	1,268	

**Notes :**

- Federation population estimate for 1998 : 2.25 million
- **Sources** : Statistical Institutes and World Bank

What are the growth perspectives for BiH? The World Bank sees another three years of double-digit GDP growth for BiH. IMF anticipates 15% growth in 2000 along with a Balance of Trade deficit of US\$1.459 billion.<sup>6</sup>

Specifically for the Federation of BiH, the Federation government banks on 12% GDP growth.

The *Private Sector Development Task Force* sees a gloomier picture. Economic Freedom in BiH is severely repressed. This repression affects both domestic savings *and* the efficiency of investments. Based on cross-country empirical evidence of the relationship between Economic Freedom and domestic savings and investment efficiency, the PSD-TF predicts single-digit GDP growth rates, even if the trend towards “market liberalization” continues.

<sup>6</sup> IMF Public Information Note 00/22, March 2000.

**Table 5 : Growth Scenarios for BiH**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>Current Account Deficit (*)</b>								
IMF-WB estimates (% of GDP)	55	50	34	24	19	16	10	4
<b>Investment (% of GDP)</b>								
IMF-WB estimates	41	42	38	33	33	32	28	25
Base scenario of PSD-TF					28	26	23	19
"liberalization" scenario					31	29	26	23
<b>Real GDP growth (% p.a.)</b>								
IMF-WB estimates	69	30	18	8	14	14	10	5
Base scenario of PSD-TF					6.1	4.5	3.2	2.3
"liberalization" scenario					7.6	5.8	4.3	3.4

(\*) excluding interest and official transfers

PSD-TF : Private Sector Development Task Force Secretariat

## **B. Economic Activity**

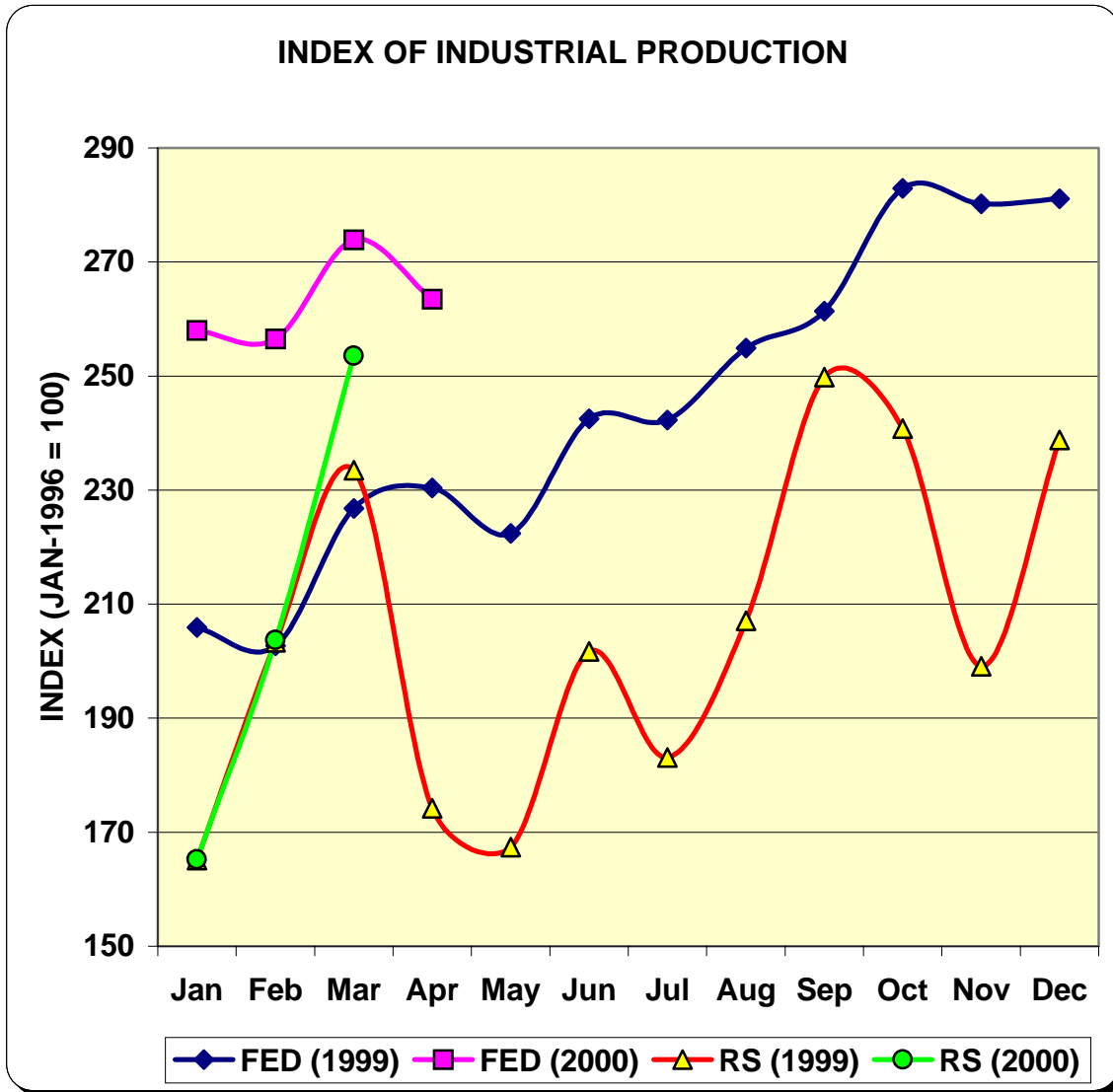
In 1998, a one-percent growth in the Industrial Production-index coincided with approximately 0.8% growth in GDP. Considering that Industrial Production has been disappointing (+ 10.6% in the Federation and 1.6% in the RS), we expect that GDP growth will be in the single-digits for 1999 (7-9%) in the Federation and under 5% in the RS (depending on how well the agricultural sector performs in 1999).

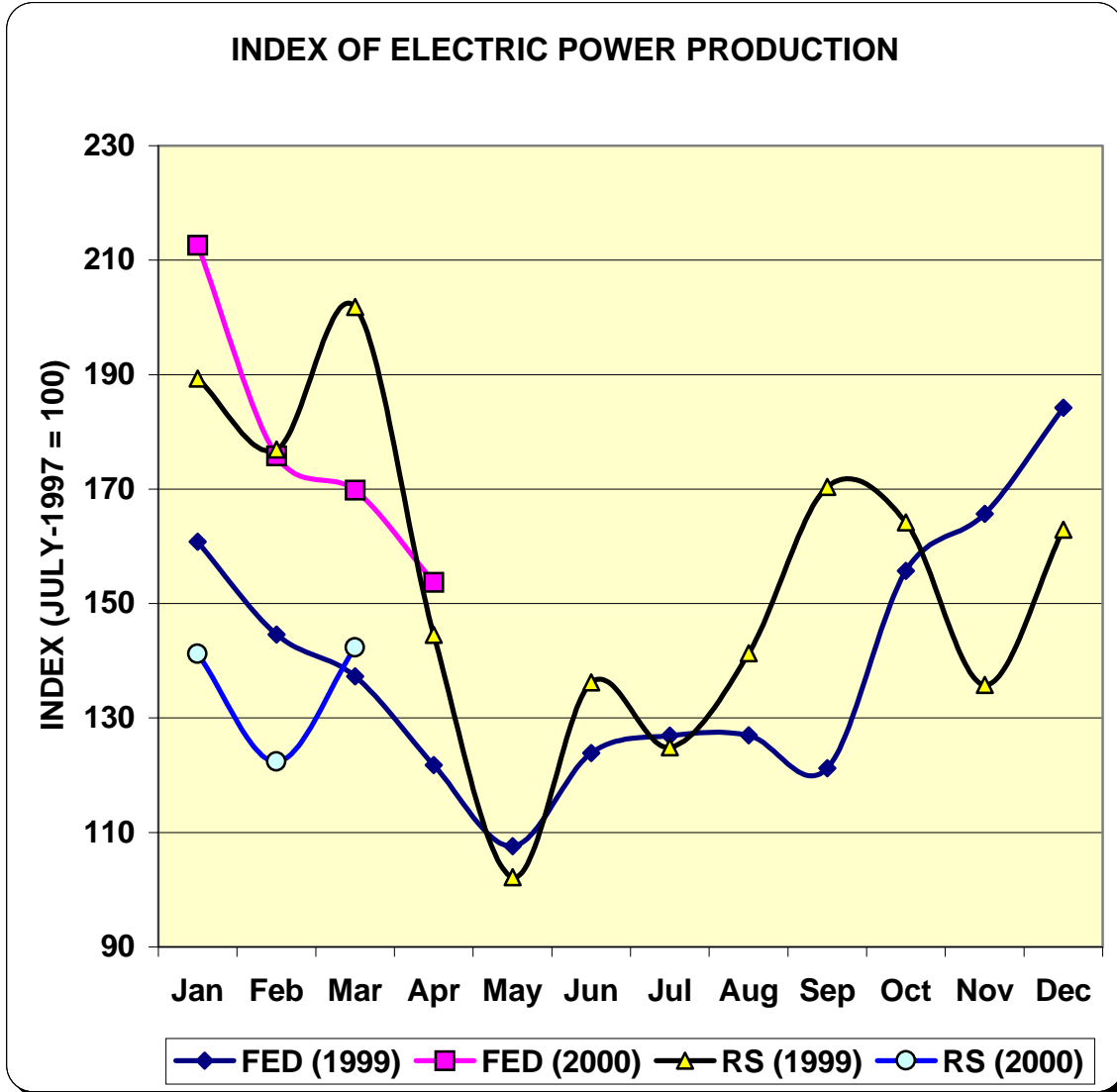
Five graphs, shown on the following pages, present:

- Index of Industrial Production
- Electric Power Industry
- Food Processing (RS) and Trade (in food products/Federation)
- Indicators of construction activity (Federation and RS)

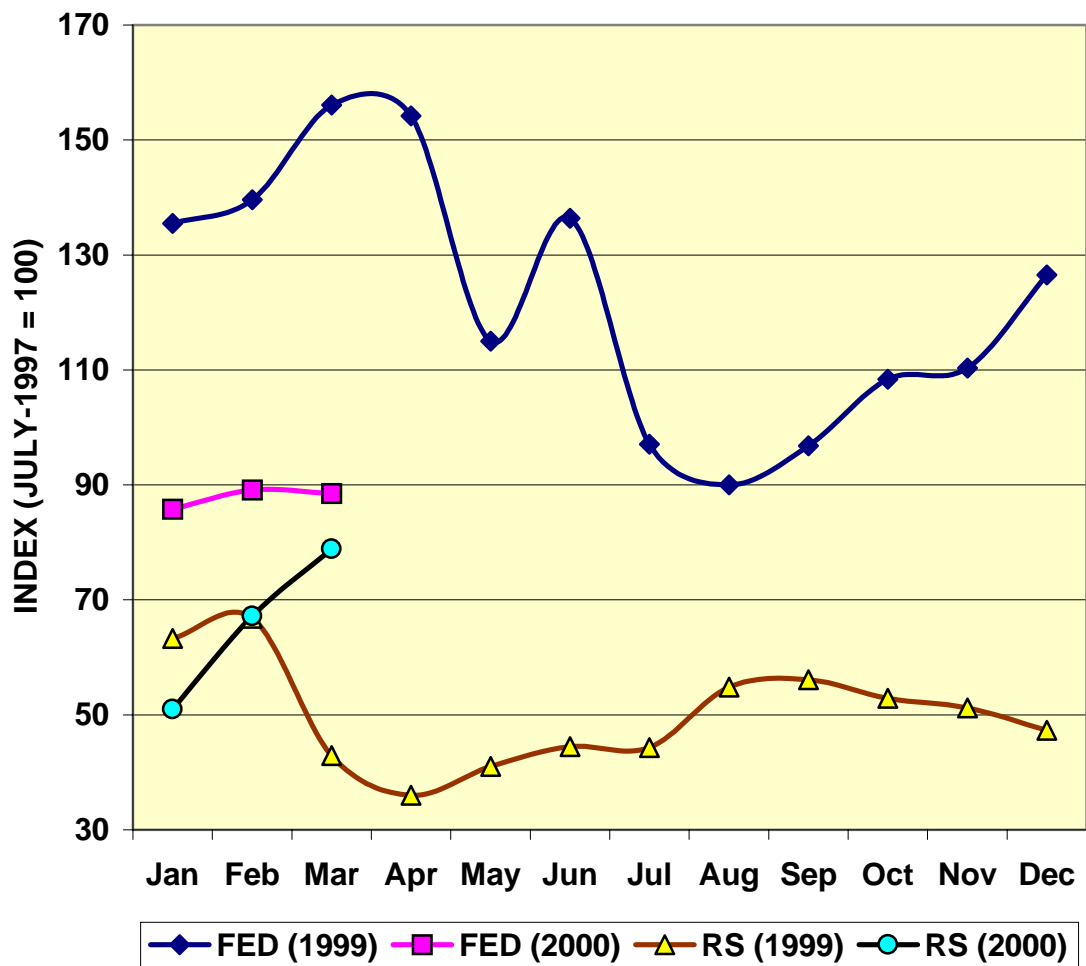
These graphs confirm that there exists quite some seasonal pattern in the data. They also illustrate the Kosovo-effect (April and May 1999). Thereafter, growth in industrial production recovered in the Federation, but not so in the RS. Interesting also, industrial production in the RS shows a persistent pattern of high activity in December and extremely low activity in January (not unlike the pattern observed in former socialist economies).<sup>7</sup>

<sup>7</sup> The RS counts a large number of holidays in January.

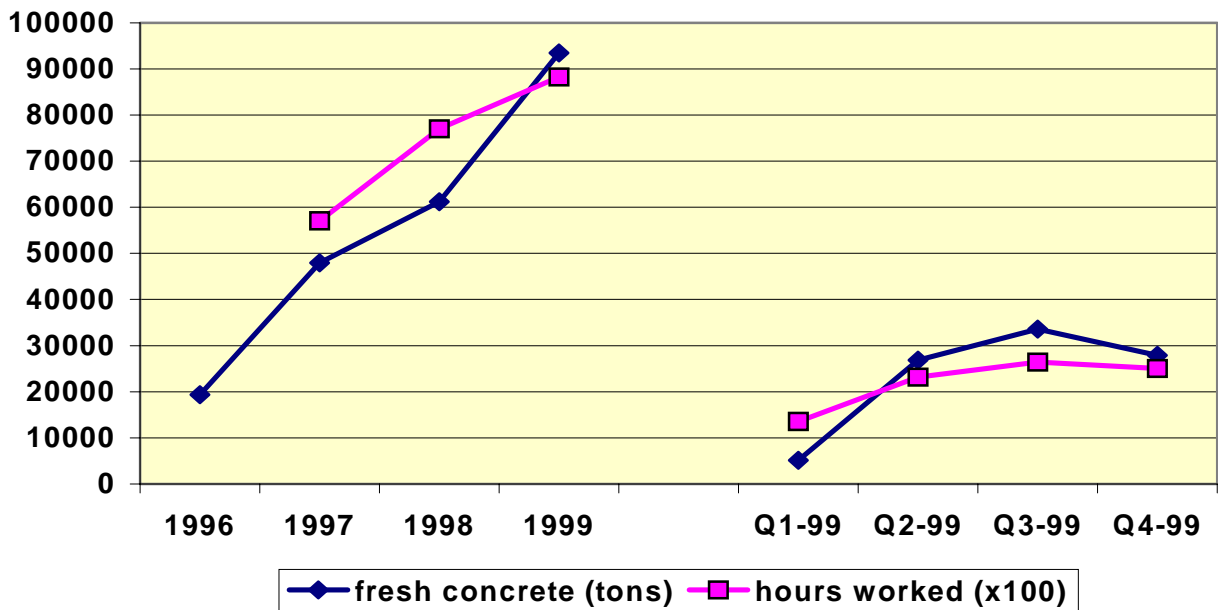




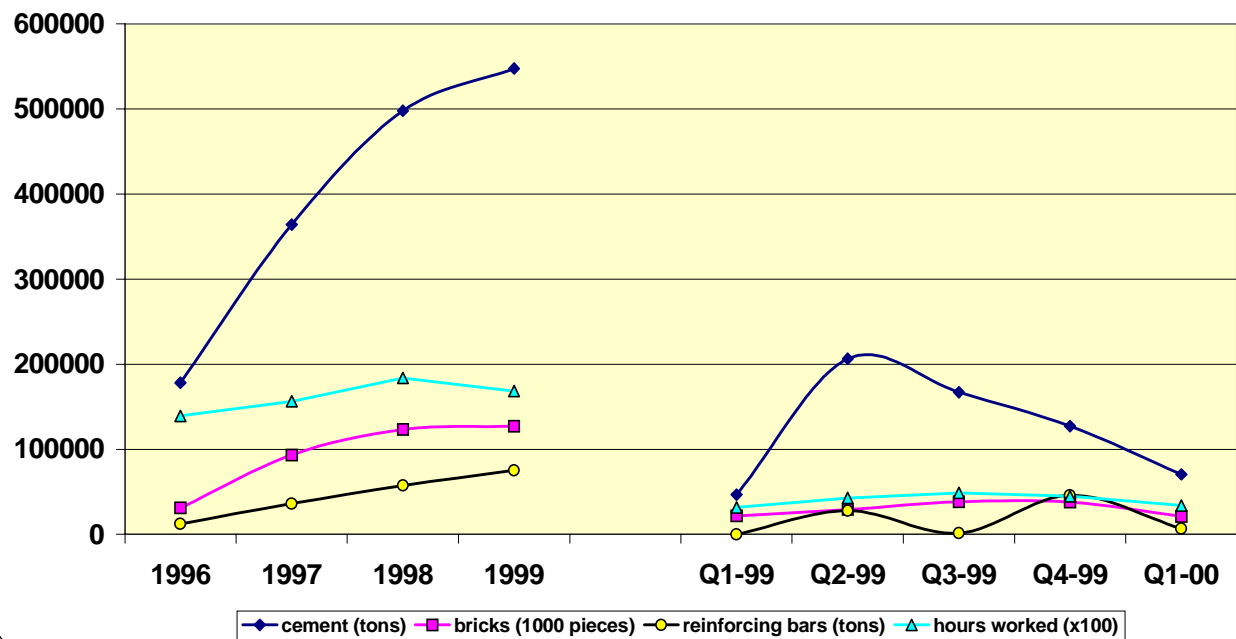
# TRADE IN AGRICULTURAL PRODUCTS (FED); FOOD PROCESSING (RS)



### CONSTRUCTION SECTOR INDICATORS (RS)



### CONSTRUCTION SECTOR INDICATORS (FEDERATION)



### III. Foreign Trade

Accurate measurement of BiH trade flows is a persistent headache, constituting one of the most difficult areas of BiH statistics. The RS Statistical Institute does not publish official data on trade flows – though these data are available with the Customs Department <sup>8</sup> --, and the Federal Institute for Statistics experienced serious difficulties in collecting data. Other than the trade data from the Federation Institute of Statistics, there are two sources of trade statistics: CAFAO and the IMF Direction of Trade Statistics (DOTS).

Official Federal Institute for Statistics data are based on reports from customs houses in the case of imports and from enterprises in the case of exports. CAFAO estimates the value of trade flows using data on receipts of the 1% customs evidencing charge. Both sources are incomplete but the CAFAO data are felt to be more accurate.

The IMF uses trade reports from BiH's trading partners to estimate imports and exports. The advantage is that a picture is drawn about total BiH imports and exports. The weakness is that trade with Yugoslavia is not included at all, which is a serious gap considering that the RS, at least until the Kosovo crisis, maintained strong trading relations with the FRY.

The size of the problem becomes clear when looking at data for the third quarter of 1999 :

Imports (BiH) according to IMF-DOTS (converted to KM)	KM1,243.9 million
Imports (BiH) according to Fed. Stat. Agency and RS Customs	KM2,310.8 million
Imports (BiH) according to CAFAO (Fed) and RS Customs	KM1,406.2 million

The combination of CAFAO and RS Customs data is likely to be the best estimate, making of course abstraction from unrecorded/illegal foreign trade.

Whereas imports from Yugoslavia accounted for 75% of recorded imports in 1998 (RS), this percentage is now only 20%. On the other hand, Yugoslavia is still the destination of over 40% of RS exports (against about 80% in 1998).

The (**official, but under-**) estimated **Current Account** deficit for 1998 reached US\$ 1.1 to 1.2 billion. The Current Account (CA) deficit (*before official transfers*) amounts to 35% of GDP.

According to Central Bank data, the Current Account deficit for 1999 reached KM 4.029 billion (*including transfers*), which is equivalent to US\$2.196 billion (at average exchange rate of 1999). As the table below shows BiH has globally **the** highest Current Account deficit as a percentage of GDP and among the highest per capita Current Account deficit (ranked fifth).

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<sup>8</sup> We are reporting RS statistics 'as is' even though serious doubts remain about data integrity.

**Table 6 : Foreign Trade (BiH) (million US\$)**

Period	Exports Total	Imports			
		Total	EU	CROATIA	SLOVENIA
1997	372	2,377	943	714	317
1998	491	2,508	1,025	740	350
Q1-97	68	609	215	177	73
Q2-97	89	563	238	157	83
Q3-97	107	582	232	192	77
Q4-97	108	624	258	187	85
Q1-98	106	530	219	154	69
Q2-98	110	589	250	171	78
Q3-98	143	669	255	222	95
Q4-98	132	738	295	194	108
Q1-99	113	542	217	133	83
Q2-99	118	610	244	167	100
Q3-99	172	643	262	155	109

Source : DIRECTION OF TRADE STATISTICS (IMF)

**Table 7 : Foreign Trade (Federation) (x1,000 US\$)**

Period	Exports Total	Imports				Imports (x1,000 KM) ***
		Total	EU	CROATIA	SLOVENIA	
1997	108,683	1,544,970	685,717	295,935	211,664	2,922,680
1998	315,816 *	2,120,297 *	638,003 *	767,466 *	302,591 *	3,515,052
1999	518,081	2,431,152	1,033,910	525,680	314,603	3,697,404
Q1-97	17,600	183,948	64,579	34,233	29,295	596,905
Q2-97	25,503	594,788	299,072	104,034	73,357	717,851
Q3-97	27,206	377,596	160,514	82,390	51,996	788,051
Q4-97	38,374	398,638	161,552	75,278	57,016	819,873
Q1-98						682,616
Q2-98	153,557 **	957,751 **	288,506 **	335,126 **	133,208 **	819,391
Q3-98	100,982 *	559,235 *	165,271 *	70,761 *	81,096 *	920,395
Q4-98	97,277 *	603,311 *	184,226 *	361,579 *	88,287 *	1,092,651
Q1-99	68,851	324,941	95,755	92,070	50,523	728,874
Q2-99	119,448	452,431	154,274	139,717	73,954	884,899
Q3-99	195,149	940,726	460,872	174,100	95,359	921,729
Q4-99	134,633	713,054	323,009	119,793	94,767	1,161,903
Q1-00	131,258	538,225	244,758	81,902	81,205	492,339

Source : Federal Institute of Statistics (US\$ figures)

Note : \* = new data from Customs      \*\* = Q1 and Q2 combined (new data from Customs)

\*\*\* Source is CAFAO (KM figures; derived for customs evidence); Q1-00 (Jan and Feb only)



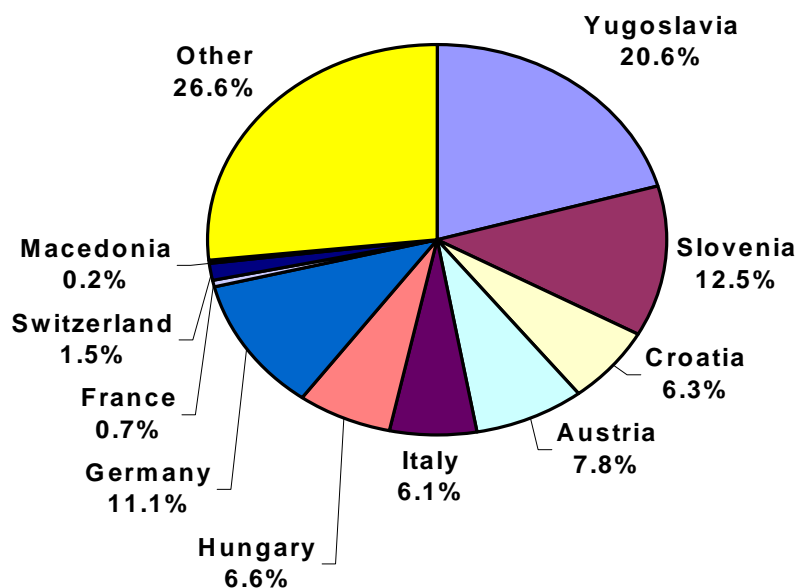
**Table 8 : Foreign Trade (RS)**

(million KM)

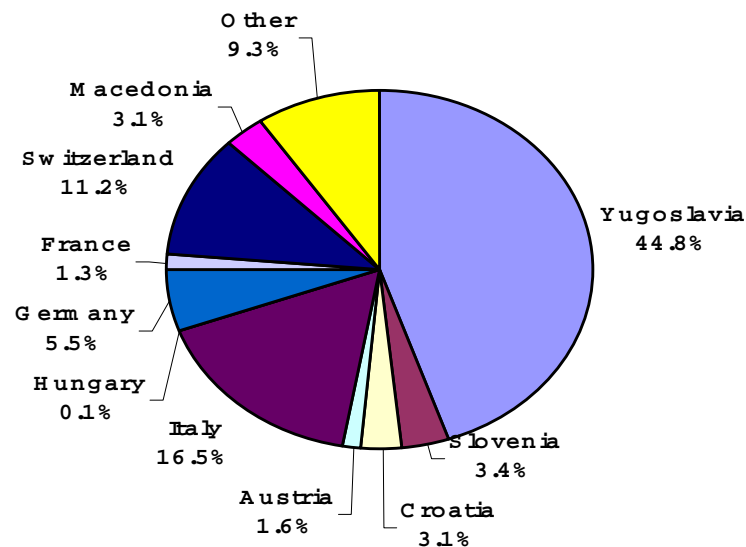
Period	Exports	Imports
Jan-99	57.2	149.4
Feb-99	19.3	84.0
Mar-99	13.7	81.5
Apr-99	14.1	63.5
May-99	18.8	73.1
Jun-99	36.2	195.2
Jul-99	46.8	215.5
Aug-99	37.4	107.7
Sep-99	78.8	162.6
Oct-99	42.8	166.6
Nov-99	27.7	139.0
Dec-99	32.6	150.8
Q1-00	106.2	340.5

Source : Customs Administration

**IMPORTS (KM million; January-April 2000)**



# EXPORTS (KM million; January-April 2000)



**Table 9 : Current Account**

(x1,000 KM)

Category	Federation <i>Jan-December 1999</i>	RS <i>Jan-December 1999</i>
Exports (goods; f.o.b.)	740,974	425,406
Imports (goods; f.o.b.)	3,731,889	1,588,936
Balance of Trade	-2,990,915	-1,163,530
Services (net)	-169,783	7,852
Current transfers	262,624	24,964
Current Account	-2,898,029	-1,130,714

Source : CBBH, Bulletin No4-1999

**Table 10 : Current Account deficit (1998)**

	<b>CA/GDP ( % )</b>	<b>CA deficit per capita US\$</b>
<b>Bosnia &amp; Herzegovina (1999)</b>	<b>52.3</b>	594
<b>Angola</b>	38.6	148
<b>Lebanon</b>	26.9	<b>972</b>
<b>Lithuania</b>	13.8	325
<b>Latvia</b>	12.1	357
<b>Ecuador</b>	11.8	181
<b>Nigeria</b>	11.7	35
<b>FYR. Macedonia</b>	11.1	144
<b>Slovak Republic</b>	10.7	425
<b>Estonia</b>	9.8	478
<b>Romania</b>	9.5	127
<b>Croatia</b>	7.4	309
<i><b>Portugal</b></i>	6.8	725
<i><b>Australia</b></i>	4.5	922
<i><b>USA</b></i>	2.8	817

Source : World Bank and own analysis

## IV. Labor Market

Population and labor market data are no better than the statistics on foreign trade. The “true” unemployment rate is hard to calculate since in the absence of a census and household surveys, both the numerator and denominator are guesses, at best.<sup>9</sup>

The Federal Institute for Statistics estimates the Federation **population** at 2,297,774 (as of December 31, 1999) against 2,243,789 one year earlier. The RS Statistical Institute estimates the RS population at 1,448,537. Accordingly, the BiH population is estimated at 3,75 million, compared to UNHCR’s 1997 estimate of 3.9 million.

In the **Federation**, the level of registered **employment** was 3.1% higher in 1999, compared to 1998. As a reminder, industrial production increased 10.6 % in the same period. Registered unemployment was 264,828 (March 2000) against 262,609 one year earlier. ‘Waitlisted’ persons were 52,597 in March 2000, a decrease from 70,961 in January 1999.<sup>10</sup> ‘Waitlisted’ persons are recorded as registered employed; therefore the number of full-time or ‘non-waitlisted’ registered employed increased from 336,086 (December 1998) to 358,998 in March 2000, or + 6.8%.

In the **Republika Srpska**, data on employment are extremely scarce. The latest indications are that unemployment was rising until September 1999 (149,214 unemployed) and falling to 147,497 in December.

*How rigid is the labor market?* The following observations point at labor market rigidities:

- net wages continue to increase significantly in spite of a high unemployment rate (even though one may rightly wonder how representative reported ‘net wages’ really are);
- real unit labor costs (in the Federation) remain virtually constant (when *seasonally* adjusted) since 1997; taking 1997 as the base year (Index = 100), real unit labor costs average 99.6 in 1998, 95.5 in 1999 and 95.2 for the first three months in 2000<sup>11</sup> ;
- sectoral differences in net wages are not large ; the sector paying out the highest net wages reports net wages 205% of the net wages in the lowest-paying sector (Federation, fourth quarter of 1999);<sup>12</sup>
- regional differences in net wages paid out are also not large; in the Federation, net wages in the Canton with the highest average is only 48% higher than in the Canton with the lowest average net wages (average for January-March 2000);

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<sup>9</sup> Quite a number of workers go unreported. Trade Unions in the RS believe that there about 25,000 ‘illegal’ workers. A government source in the Federation believes that 20% of the active population work ‘illegally’.

<sup>10</sup> ‘Waitlisted’ are defined as workers “... for whose work there is temporarily no need due to the decreased scope of work *during a state of war*...” (1992).

<sup>11</sup> The index of *real unit labor costs* is constructed as follows: real product wages deflated by productivity. Real product wages are nominal gross wages deflated by industrial producer prices. Productivity is industrial production (index) deflated by industrial employment. The index therefore roughly measures the change in the relative wage share and, *ceteris paribus*, the change in “profit margins”.

<sup>12</sup> In November 1999, the corresponding figure in RS was 219%.

- reported net wages paid to the public administration exceed *average* net wages paid by 32.6% (average for January-March 2000) in the Federation and by 29% (November 1999) in the RS;<sup>13 14</sup>
- reported gross wages in government are about 3.7 times GDP per capita.<sup>15</sup>

Another causes for worry is the situation of the **pension funds**. The low employment ratio implies that for every pensioner (**Federation**) only 1.54 employees (including the ‘waitlisted’) are contributing into the pension fund.<sup>16</sup> In March 2000, the average net wage was 2.26 times the average pension paid out.

In the **RS**, the average pension reached KM 106.6 in November 1999. Early 1999, for every pensioner only 1.55 employees were contributing into the pension fund.

**Box : working hours**

The length of the workday and workweek is one of the principal issues in labor-management relations and is a major subject for social legislation. Working hours of work are regulated either through legislation, through collective bargaining or a mixture of both.

In the majority of developing countries, the maximum level of normal hours fixed by laws or regulations remains 48. This is the standard in Latin America, most of Asia and much of Africa. However, many African countries formerly under French administration prescribe a 40-hour week.

In the industrialized countries, a widespread and substantial reduction of normal hours has taken place over the last fifty years. Virtually all of the industrialized countries have normal hours, determined by law or by collective agreement or practice, in the 40-44 hours range.

The legal standard in Japan was fixed at 48 hours in 1947. Almost all workers, however, have shorter hours through collective agreements or practice. Normal hours tend to vary with the size of the enterprise, with more hours worked in small enterprises.

<sup>13</sup> In the UK, earnings in public administration are practically at par with the average earnings (i.e. 1.03). Globally, public sector wages are only 80% of private sector wages. They are 90% in OECD countries. (Source : “An international statistical survey of government employment and wages”, World Bank)

<sup>14</sup> In 1991, civil servants (employees of SOEs not included) accounted for 15% of registered employment. By 1998, this ratio increased to 18% in the RS (37% according to another source) and reached 31% in the Federation. By comparison, in France, employment in the civil service is 20.2% of total employment (14.1% in Germany, 14.2% in the USA, 8.3% in Japan). The average for OECD countries is 17.5%, 8.9% in Latin America, 6.7% in Africa and 6.3% in Asia (excluding former Soviet Union).

<sup>15</sup> By comparison, this multiple is 3.0 globally, 1.6 in OECD countries, 2.5 in Latin America, 3 in Asia, 5.7 in Africa.

<sup>16</sup> The equivalent rate in the UK (1997) is 2.5.

The first country to establish the legal standard of normal hours at a level below 40 was France. In 1981, the normal working week was reduced to 39 as the first step towards a target of 35.<sup>17</sup> In several other countries, a substantial proportion of the workforce has normal hours below 40 (Belgium, UK).

In **Bosnia and Herzegovina**, Article 29 of the Federation Labor Law and Article 21 of the Republic Srpska Labor Law set the standard for normal working hours to 40 per week. Thus labor legislation in BiH is more generous than in most lower-income and lower middle-income countries and *at par* with higher-income countries characterized by higher capital-labor ratios.

Whereas increasing the normal working hours would meet resistance from workers organizations, the generous provisions of labor legislation in BiH reduces the flexibility for employers, increases labor costs and puts the economy at a disadvantage with economies at the same income level.

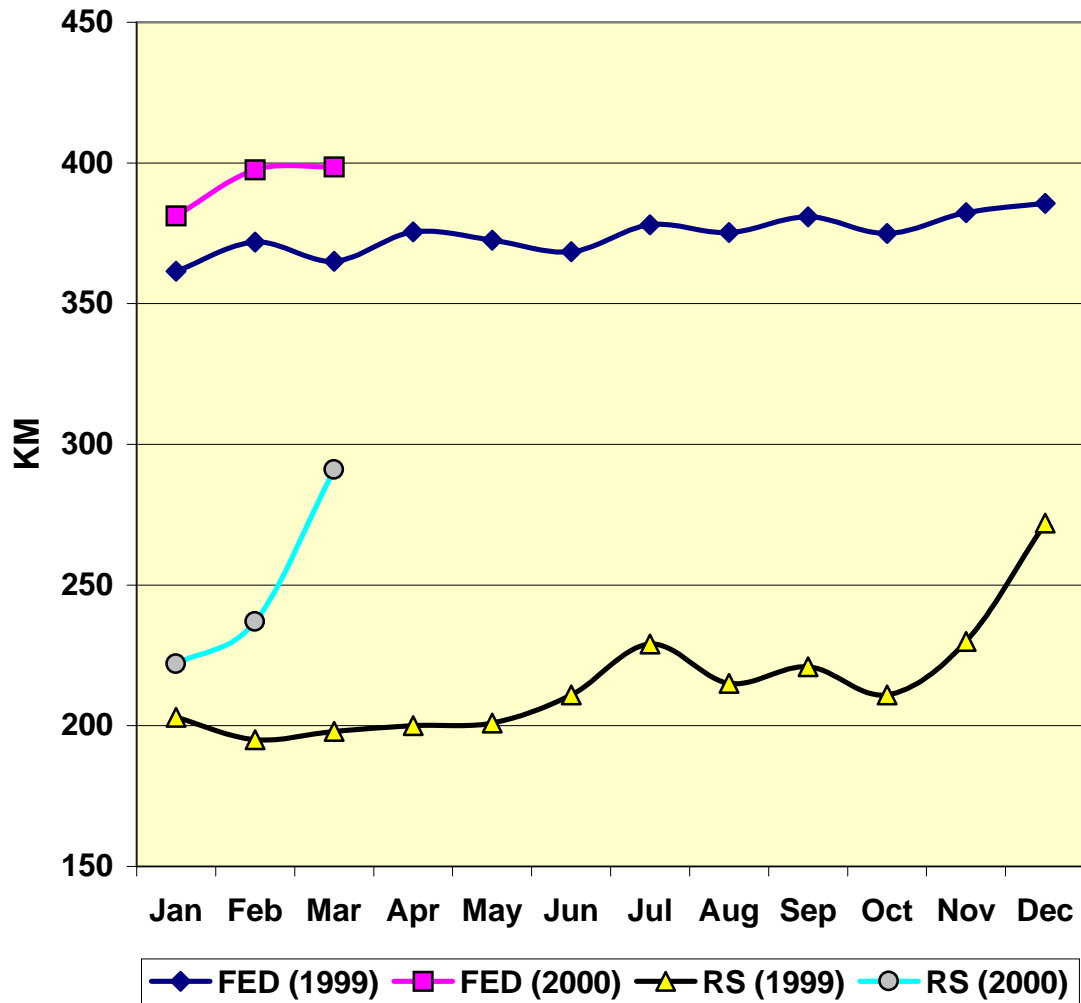
**Table** : legal (weekly) working hours

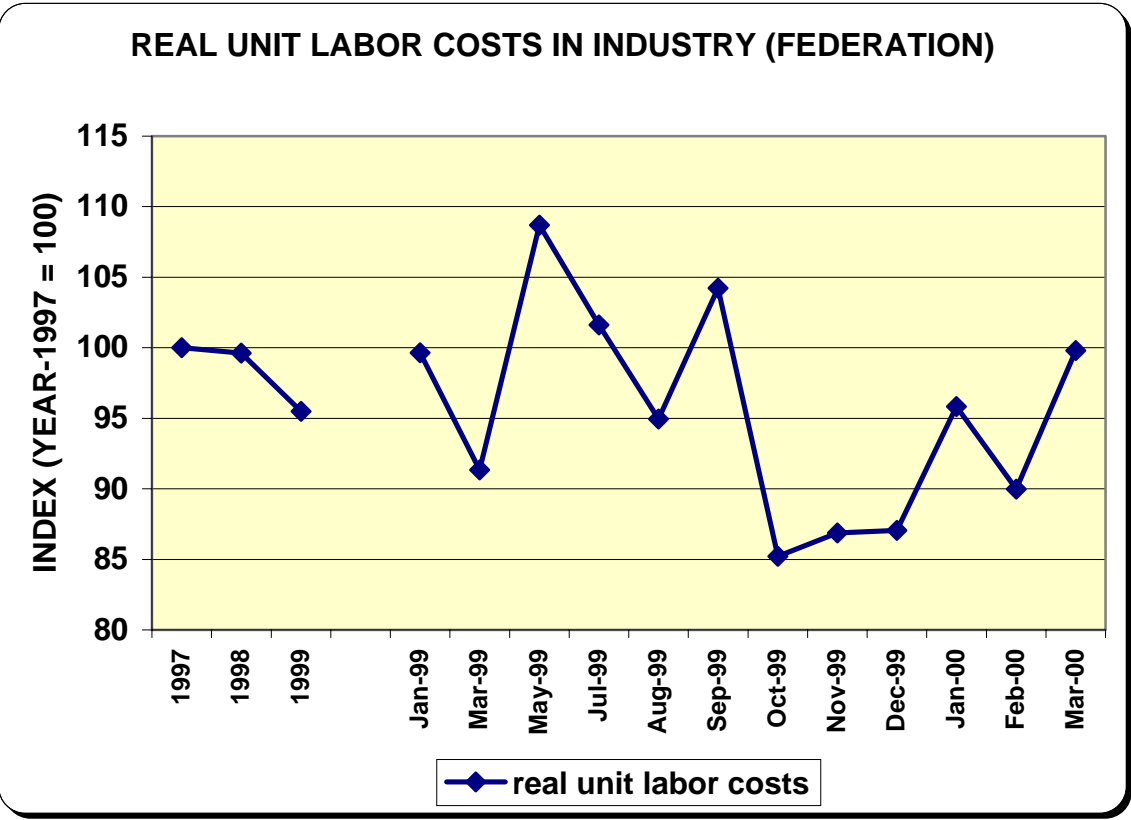
<b>Bosnia &amp; Herzegovina</b>	<b>40</b>
Argentina	48
Hong Kong	48
Malaysia	48
Mexico	48
Taiwan	48
Thailand	48
Romania	46
Turkey	45
Mauritius	45
Republic of Korea	44

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<sup>17</sup> In order to stimulate enterprises to adopt the 35-hour week, the second 35-hours Law (2000) a) imposes a 10% additional labor cost for over-time and b) grants reductions in social security contributions of up to 21,500 FF per employee.

### MONTHLY NET WAGES







## V. Prices, Wages and Exchange Rates

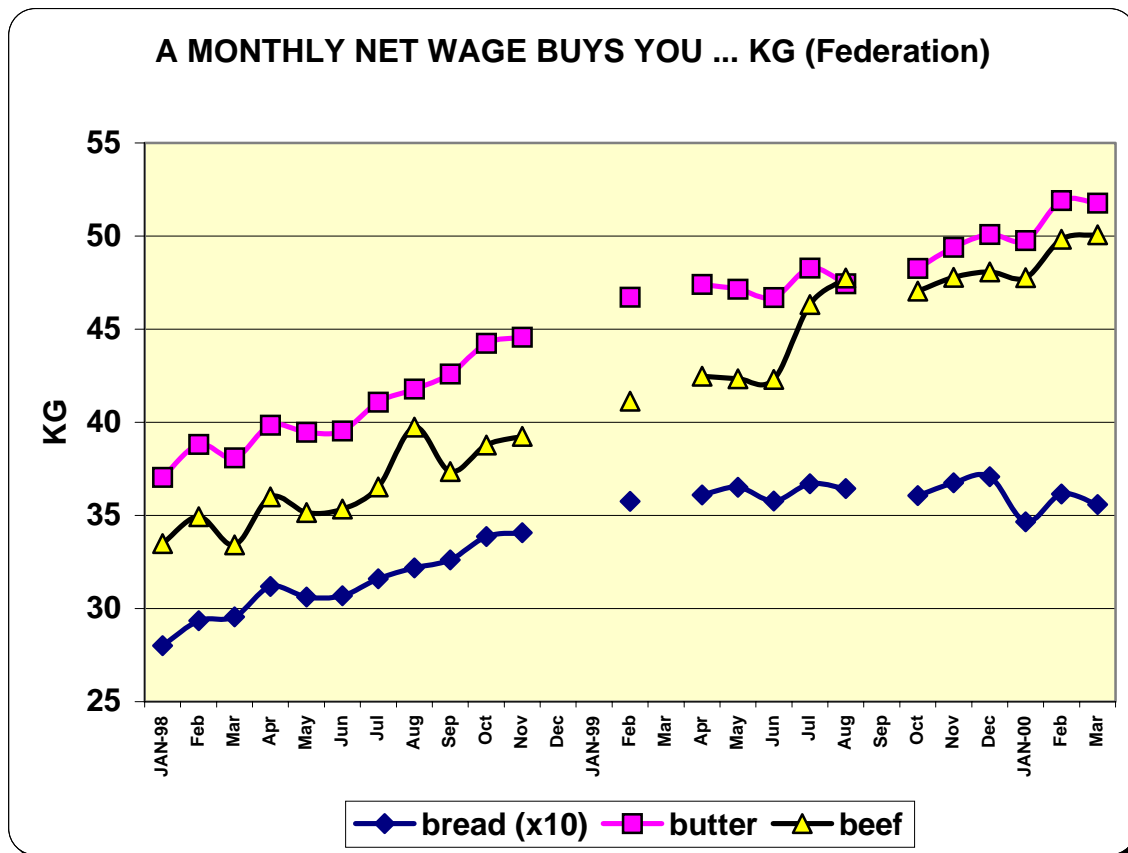
After 12% price inflation recorded in 1997, inflation decelerated in the **Federation** during 1998, to 5.1%. This trend continued into 1999 with retail prices remaining virtually stable.

The average price level in the **Republika Srpska** increased by 38% in 1998 compared to 1997. However, this inflation was calculated on the basis of an index expressed in Yugoslav Dinar (YD); when inflation caused by the depreciation of the Dinar is taken out, inflation was actually less dramatic. Since the start of 1999, the RS Institute of Statistics computes the retail price index based on prices recorded in Konvertible Marka (KM), rather than YD prices. This index shows that there is currently no price inflation in the RS (March 2000).

### *Wages and Purchasing Power*

Instead of constructing a **real** net wages index, we calculated what an average monthly net wage could buy. In the Federation (March 2000), one monthly net wage of KM398.6 bought 356kg of bread or 52kg of butter or 50kg of beef. This is a significant increase in purchasing power compared to January 1998 when the monthly net wage bought 280kg of bread, 37kg of butter or 33kg of beef. This positive trend is not entirely to be attributed to increasing wages, but also to slightly decreasing prices for these three commodities.

In the RS, the average monthly net wage (expressed in YD) paid out in December 1998, bought 284kg of bread, 14.5kg of butter or 18kg of beef. In March 2000, the average monthly net wage of KM 291 bought 419kg of bread, 26.6kg of butter or 30.4kg of beef. These figures demonstrate the lower wage earned in the RS as well as the different relative prices compared to the Federation.



### Exchange Rates

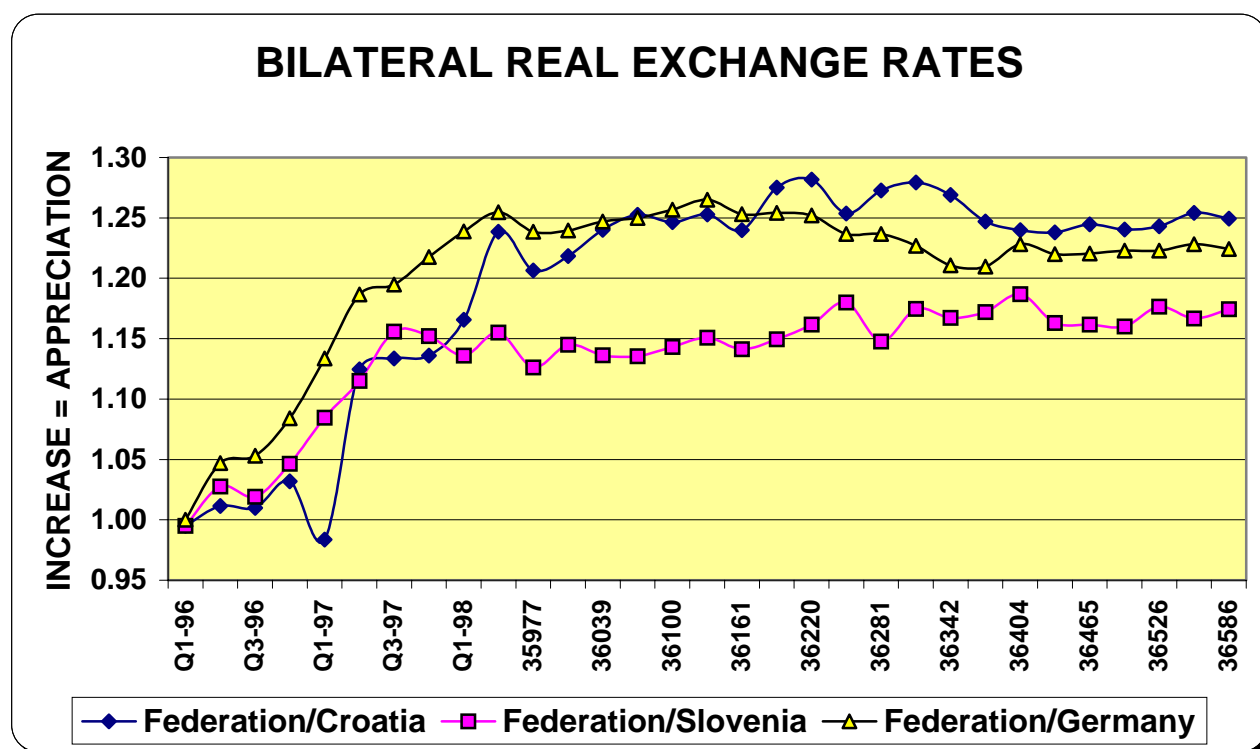
*BiH Economic Update* (April 1999) introduced the Real Effective Exchange Rate (REER), i.e. the *real* exchange rate of the BiH KM versus the currencies of the Federation's trading partners. The real exchange rate affects the level of imports and exports. If the real exchange depreciates, then imports become less attractive to BiH citizens, and BiH exports become more attractive to foreign countries. If the real exchange rate appreciates, then the reverse is true. Because the nominal exchange rate of the BiH KM is fixed against the Deutsche Mark (DM), BiH authorities cannot manipulate the real exchange rate. The real exchange rate thus depends on the differential price trends only. The REER underwent little change since early 1997. The graph below shows **bilateral real exchange rates** (RER) with Croatia, Slovenia and Germany. The currency appreciated (in real terms) against the Slovenian Tolar until Q3-97, the Croatian Kuna until Q2-1998 and the DM until Q2-1998. In recent months RERs remained virtually flat.

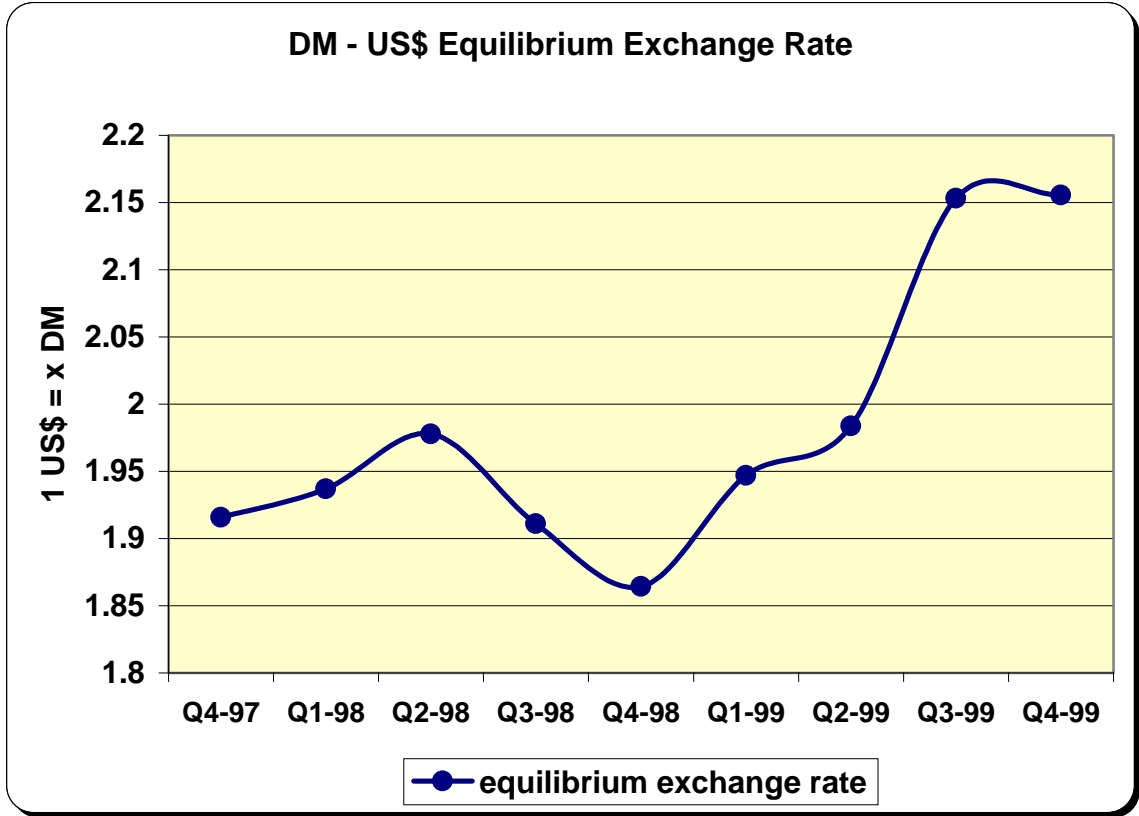
The REER being a relative concept (i.e. it measures trends in exchange rates) rather than absolute differences in purchasing power, we also constructed a butter exchange rate.<sup>18</sup> Like the UK magazine's hamburger case, butter is very much a standard commodity in BiH. If

<sup>18</sup> Not unlike the famous "hamburger" methodology applied by 'The Economist' to calculate equilibrium exchange rates.

purchasing power parity holds, then one dollar should buy as much butter in London as it does in Sarajevo. But does it ?

In the last quarter of 1999, one kilogram of New Zealand butter sold in London (retail market) would have cost US\$ 3.59. In the Federation retail market, butter sold at the equivalent of KM 7.74 per kilogram. The implied purchasing power parity exchange rate would thus have been KM 2.1554 for US\$ 1 whereas the market exchange rate actually stood at KM 1.884 – US\$ 1, an indication that the KM (and DM) was overvalued. By this butter standard, today's nominal exchange rate (May 2000) would be more in line with the 'equilibrium' rate.





## VI. Fiscal Indicators

The government system of BiH is very decentralized. Economic responsibilities of the State government are limited to areas of foreign trade policy, external debt servicing, customs policy and monetary policy (i.e. the Central Bank, which operates as a currency board). Entity governments are in charge of areas not specifically assigned to the State. Furthermore, in the Federation, substantial power is devolved to the 10 Cantons, where the Cantonal administrations are responsible for public services, education, social transfers and other matters.

The government is prohibited from taking credits from the Central Bank, or borrowing from the public or commercial banks, as that would violate the rules of the currency board, and IMF agreements. The government is thus constrained by tax and non-tax revenue, in addition to foreign loans and grants. Whenever a revenue shortfall is anticipated, budgetary expenditure needs to be revised downward.

As the government cannot have recourse to domestic borrowing, the focus is on revenues. CAFAO's data for the **Federation** indicate an increase of 4.7% in tax revenues (1999). This positive growth was entirely achieved in the second half of 1999 (as the first half saw a decline compared to the same period in 1998). Revenue in January-March 2000 was 12.6% higher compared to the first quarter of 1999. Data for the **RS** indicate an increase of 20.1% in public revenues (1999). This increase was entirely achieved in the second half of 1999 (as the first half of 1999 did not see any growth). Revenue in January-March 2000 was 39.5% higher compared to the first quarter of 1999.

The provision of large amounts of donor funding has facilitated a large public expenditure program while enabling BiH to maintain fiscal stability. The present level of government spending is however excessive. A major effort must be undertaken to enhance revenue mobilization by widening the tax base rather than raising tax rates, reducing public spending, improving expenditure management, re-balancing recurrent expenditures, or restructuring the Social Security System.

How does government expenditure in BiH compare to the pattern in the EU and Central and Eastern Europe? Although data comparability remains an issue, a preliminary conclusion is that, in BiH, defense expenditure is excessive and that wages and transfers&subsidies are comparable to EU and CEE countries. Capital expenditures (not shown) are also large (as can be expected during a post-war reconstruction phase). With high expenditures on transfers and subsidies, the Federation – and the RS to a lesser extent – follows the European welfare model. However, middle-income countries (excluding CEE) spend, on average, only 4.6% of their GDP on transfers and subsidies.

**Table** : selected government expenditure indicators

		<b>FED</b>	<b>RS</b>	<b>EU</b>	<b>CEE</b>
<b>Wages</b>	(% of GDP)	5.1%	10.8%	5.8%	4.0%
<b>Defense</b>	(% of GDP)	5.2%	4.6%	2.3%	1.8%
<b>Transfers&amp;subsidies</b>	(% of GDP)	26.0%	13.6%	25.7%	22.0%

Notes :

- transfers and subsidies include benefits from social security institutions
- CEE excluding Russian Federation and Croatia

Source : World Bank and own calculations

**Table 11 : Total Public Revenue (Federation)**

(million KM)

<b>Description</b>	<b>Jan-December 1999</b>
Federation, Canton and Municipalities	1,847
Social Insurance Funds	918
Other	86
<b>TOTAL</b>	<b>2,851</b>

Source : CBBH

**Table 12 : Total Public Revenue (RS)**

(million KM)

<b>Description</b>	<b>Jan-December 1999</b>
Public Revenue (central government)	417
Social Insurance Funds	185
Other	11
<b>TOTAL</b>	<b>613</b>

Source : CBBH

**Table 13 : Consolidated Tax Revenue (Federation)****(million KM)**

<b>DESCRIPTION</b>	<b>FEDERATION</b>	<b>CANTON</b>	<b>MUNICIPALITY</b>	<b>TOTAL</b>
<b>1998</b>				
Customs Tariff Duties	304.9			<b>304.9</b>
Import Excises	265.7			<b>265.7</b>
Domestic Excises	54.9			<b>54.9</b>
Sales Taxes		644.3	66.0	<b>710.3</b>
Wage Taxes		167.2	34.9	<b>202.1</b>
Company Profit Taxes	10.3	66.0	2.7	<b>79.0</b>
Property Taxes		13.7	33.4	<b>47.1</b>
Other		6.2	2.5	<b>8.6</b>
<b>TOTAL</b>	<b>635.7</b>	<b>897.4</b>	<b>139.4</b>	<b>1672.5</b>
<b>1999</b>				
Customs Tariff Duties	345.2			<b>345.2</b>
Import Excises	240.3			<b>240.3</b>
Domestic Excises	74.2			<b>74.2</b>
Sales Taxes		692.3	69.7	<b>762.0</b>
Wage Taxes		182.1	38.2	<b>220.3</b>
Company Profit Taxes	17.5	28.9	1.3	<b>47.7</b>
Property Taxes		13.2	36.7	<b>49.9</b>
Other		7.6	3.4	<b>11.0</b>
<b>TOTAL</b>	<b>677.3</b>	<b>924.2</b>	<b>149.3</b>	<b>1750.8</b>
<b>2000 (4 months)</b>				
Customs Tariff Duties	110.6			110.6
Import Excises	62.3			62.3
Domestic Excises	19.0			19
Sales Taxes		215.3	23.6	238.9
Wage Taxes		60.3	12.5	72.8
Company Profit Taxes	8.9	7.2	0.3	16.4
Property Taxes		5.0	11.2	16.2
Other		2.3	1.2	3.5
<b>TOTAL</b>	<b>200.8</b>	<b>290.1</b>	<b>48.8</b>	<b>539.7</b>

Source : CAFAO

**Table 14 : Public Revenue (RS) excl. social insurance**

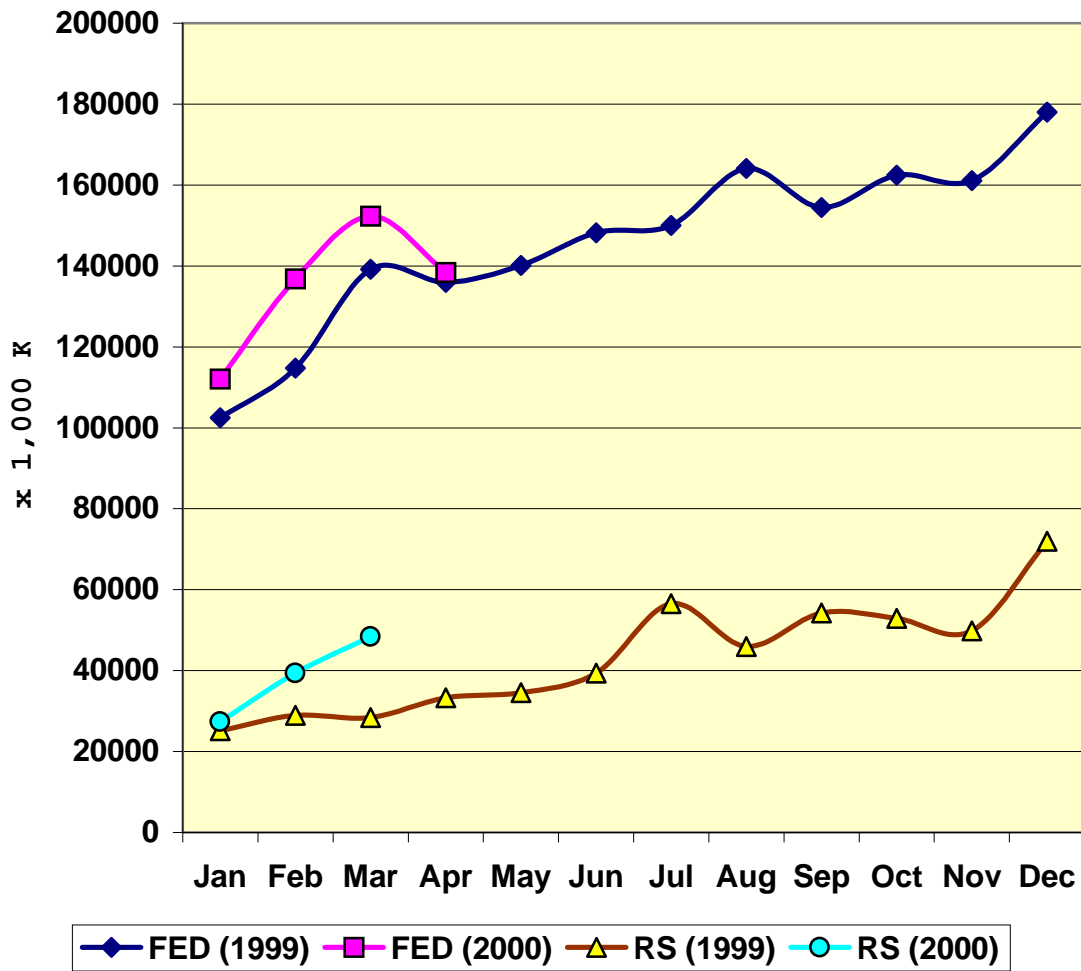
(million KM)

DESCRIPTION	RS
<b>1998</b>	
Customs Duties	89.2
Excise Duties	69.2
Sales Taxes	136.5
Corporate Profit Taxes	8.7
Personal Income Taxes	33.1
Other	97.3
<b>TOTAL</b>	<b>434.0</b>
<b>1999</b>	
Customs Duties	137.9
Excise Duties	91.6
Sales Taxes	125.2
Corporate Profit Taxes	9.9
Personal Income Taxes	45.1
Other	111.5
<b>TOTAL</b>	<b>521.2</b>
<b>2000 (3 months)</b>	
Customs Duties	33.1
Excise Duties	11.8
Sales Taxes	28.4
Corporate Profit Taxes	2.9
Personal Income Taxes	11.9
Other	27.1
<b>TOTAL</b>	<b>115.2</b>

Source : CAFAO



**TAX REVENUE (FED) & PUBLIC REVENUE (RS)**



## VII. Monetary and Financial Sectors

### A. BANKING

Since the establishment of the Central Bank of BiH<sup>19</sup> in August 1997, substantial progress has been achieved in promoting use of the KM. The currency board has contributed to price stability. One could claim that the currency board arrangement restricts commercial banking development. However, the technical insolvency, under-capitalization and inadequate commercial or retail banking are more serious constraints, as is the existence of the payment bureaus.

According to Entity bank privatization laws, all state-owned banks in BiH will be privatized or liquidated, if insolvent, by 2000. In order to avoid liquidation and/or formal privatization, a wave of bank mergers and re-capitalization is observed (in the Federation, this is due, in part, to the provisions of the commercial banking laws that doubled the size of net capital from KM 2.5 million to KM 5 million as of April 23, 1999).<sup>20</sup> Restructuring of the financial sector in both Entities is anticipated to lead to a reduction in the number of banks from the initially 18 State-Owned and 53 private banks to about 15-20 stronger banks.

In the **Federation**, as of December 31, 1999 there were 44 banks operating (of which 10 have majority state shareholding). This is down from 55 (including 11 state-owned banks) since December 31, 1998. No new banks were opened but eleven banks lost their license (2 because shareholders did not comply with regulations, 5 because of mergers with other banks, 4 because of insolvency). Furthermore, 9 banks have provisional management imposed because they did not fulfill legally prescribed operational conditions. As a percentage of total capital, state-owned banks have 50%. This is higher than in most northern European countries but lower than in certain southern European ones. The number of employees in banks is 4,238.

Deposits make up 24% of liabilities. Fifty-nine percent of total deposits are demand deposits. Only twenty-four percent of total deposits belong to households. All three indicators are below Western European benchmarks.

Return on Assets was negative in 1999 (-0.97%) with private banks actually recording worse performance (-3.64%) than state-owned banks (-0.06%) did. Overall, net interest income is 1.65% of assets (0.58% in state-owned banks and 4.79% in private banks) while fee income is 3.8% of assets (1.52% in state-owned banks and 10.44% in private banks). Total operating expenses are 4.75% of assets (1.57% in state-owned banks and 14.04% in private banks).<sup>21</sup>

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<sup>19</sup> Under the June 1997 Law on the Central Bank of Bosnia and Herzegovina, the Central Bank will operate as a currency board for the first six years of its existence, issuing the new domestic currency (KM) at the fixed exchange rate of 1 KM – 1 DM. During this six-year period the CBBiH is restricted from engaging in the extension of credit through the creation of money (i.e. there is no room for an independent monetary policy as the monetary authority cannot act as a lender of last resort and loses the interest rate as a policy tool; interest rates are market determined and the monetary authorities cannot influence interest rates directly). The CBBiH may impose reserve requirements against KM deposits at commercial banks. Broad money supply expands in connection with foreign financing and private inflows.

<sup>20</sup> Meanwhile, in the RS, minimum capital requirements increased from KM 1.5 million to KM 5 million.

<sup>21</sup> By comparison, in the EU, the net interest margin averages 2.7% and overhead costs average 2.8%.

In the **Republic Srpska**, as of December 31, 1999 there were 16 commercial banks and a Postal Savings banks operating which means no change compared to December 1998 (although one new banks entered in operation and one bank saw its license revoked. Only six banks are private owned. The number of employees in banks is 3,767 (an increase of 205 over December 1998).

Deposits make up 55% of liabilities. Forty-nine percent of total deposits are demand deposits. In December 1998, only 13% of deposits were denominated in KM (the balance being in Yugoslav Dinars). One year later, 95% of deposits were denominated in KM.

Net interest income represents 36% of total banks' revenue (excluding extraordinary income). Overall, net interest income is equivalent to 1.97% of assets. Other income (excluding extraordinary income) is equivalent to 3.4% of assets. Return on Assets was 1.1%.

Banks have yet to overcome depositor skepticism caused by citizens' experiences with hyperinflation and the loss of foreign exchange deposits as a result of the 1992-95 civil war, as well as to diversify their services and adopt a rational fee structure. Introduction of a deposit insurance agency and one or more foreign banks in each entity will enhance the public's confidence in the BiH banking sector.

Term lending is funded almost exclusively from donor credit lines, at attractive interest rates linked to London Interbank Offer Rate (LIBOR) e.g. USAID's Business Finance (BF) program. Interest rates on short-term credits are high, although they have come down since December 1997 and are subject to large variances. In fact, as the graph below demonstrates, BiH has about the highest *real* interest rates in the world. The high rate on short-term loans reflects the scarcity of deposits and the risk of default. Whereas the regulatory environment has improved and financial sector restructuring is underway, intermediation remains marginal in terms of new credits to the private sector.<sup>22</sup> The basic reason is that a) household (financial) savings are low, b) many enterprises are loss making, c) cash flow generated in state-owned enterprises is reinvested. As overall domestic saving is low, one cannot expect high levels of intermediation and credits to the private sector. In order to support this statement, the table below shows the empirical, *positive* relationship between domestic savings (outside government) and 'claims of financial institutions on the private sector'.

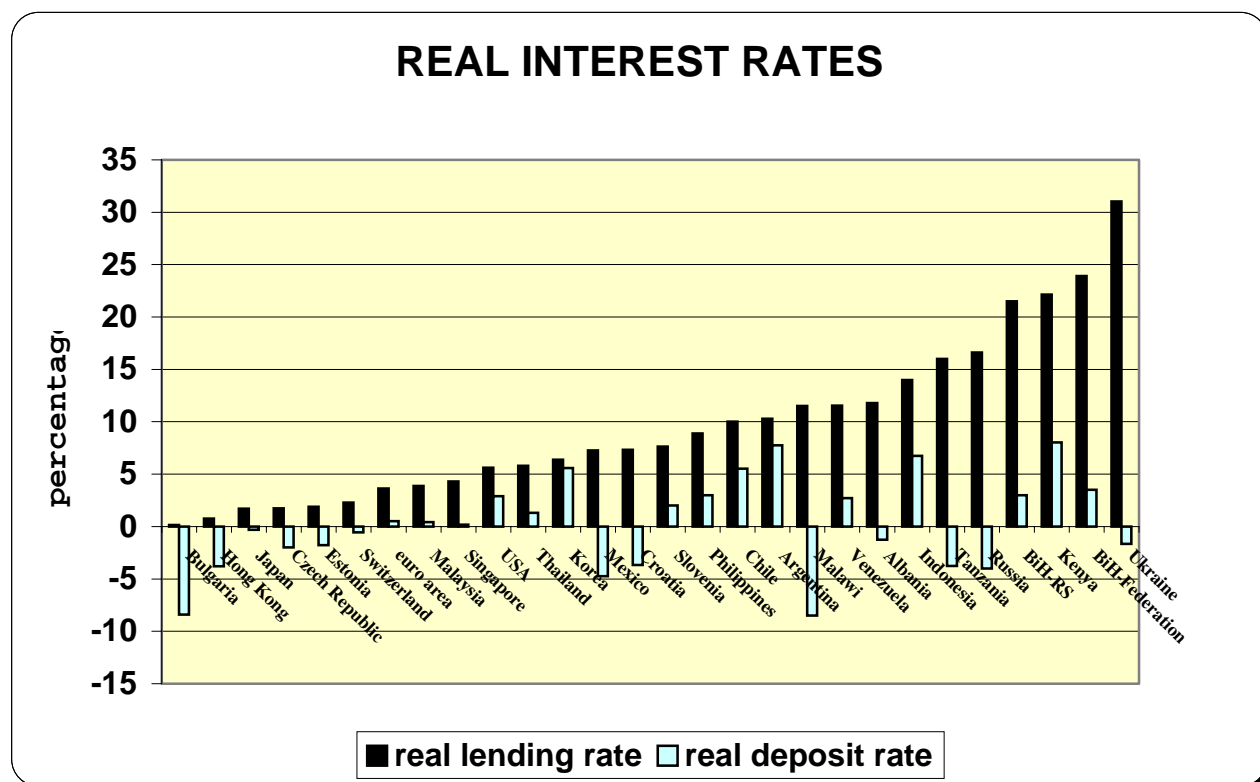
**Table** : savings (outside government) and 'claims of financial institutions on the private sector'

Country group	Savings (% of GDP) claims on private sector (% of GDP)	
Low-income countries	14%	25%
Lower-middle income	19%	47%
Higher-middle income	25%	62%
High-income	26%	121%

Source : World Bank and own calculations

<sup>22</sup> For this reason also, the balance sheet total of banks is not showing (yet) a significant upward trend.

The level of monetization is low in BiH. According to data released by the Central Bank, Money (M1) totaled KM310 million at the end of 1998, or 6.2% of nominal GDP<sup>23</sup>. On December 31, 1999 M1 stood at KM1,110 million which is a massive increase of 255%, indicating increased confidence in the KM. The Central Bank bought net KM558 million.



## B. PAYMENTS SYSTEM<sup>24</sup>

The payments bureaus (ZPP, ZAP, SPP) are a legacy of the socialist economic system. In addition to providing – rather inefficiently -- payments services, the payments bureaus carry out a series of functions not compatible with a *clearinghouse* in a market economy.

The Payment Bureau is a unique institution created for the purpose of controlling social resources in order to meet the objectives of a planned economy. The Payment Bureau exercises monopoly control over the nation's payment system, obtains economic information in order to control the distribution of social resources, creating inefficiencies which discourage domestic businesses from operating legally, and producing disincentives for attracting foreign investment. Besides the payment services, Payment Bureau performs other activities not necessary related to

<sup>23</sup> Equivalent percentages are 9.8% in Croatia, 7.9% in Slovenia, 22.7% in the Czech Republic, 13.9% in Poland, 16% in Hungary, 17.9% in Estonia, 13.1% in the USA.

<sup>24</sup> This chapter was contributed by the Secretariat of the IAG.

its basic function, such as a statistical function, the treasury function, collection and information on public revenues function etc.

Following the decision of the Madrid Conference in December 1998, the Entity Governments in BiH will eliminate the Payment Bureaus by December 31, 2000. In the process, the international community created the International Advisory Group (IAG) with the purpose to provide financial and technical resources necessary to eliminate the Payment Bureaus as well as to enhance the political commitment. The IAG produced the implementation plan, in coordination with the Entity governments, calling for orderly dismantling of the Payment Bureaus and its final elimination by December 2000.

The legal framework for the elimination of the Payment Bureaus was created with the adoption of Amendments on the Law on Internal Payments, and creating a new Governance Board which is given a specific mandate to transfer all functions of the Bureaus to the appropriate public or private sector institution. The amendments eliminated the monopoly of the Bureaus in offering payment services and allow banks to engage in payments services. So far 18 banks were licensed to perform low- and medium-risk payment transactions, while licenses for high-risk transactions will be given to the banks having been audited (external auditors reporting to the Banking Agencies). All licensed banks were found to be eligible for offering payment services, according to the Federation Banking Agency. In the RS, two banks have applied for the license but none has received the license so far.

The initial steps in the establishment of a BiH-level *clearinghouse* have been taken. The Central Bank, which plays the active role in the establishment of a clearing and settlement system, issued a tender for providing facilities for a RTGS (Real Time Gross Settlement) system, thus creating the basis for a *clearing house*. The Central Bank received one bid, which is under consideration. It is envisaged that the *clearing house* will ultimately be privatized. Assuming that the Central Bank will operate the high-value payments settling (RTGS system), it remains to be decided whether or not to use the technical facilities currently operated by the Payment Bureaus, for establishing a *clearing house*.

In the RS, it was necessary first to separate the Payment Bureau from the Development Bank. This was accomplished in March 2000. Further transformation steps will be undertaken in a way similar to the planned activities in the Federation.

Early this year a financial verification of all three Payment Bureaus was conducted. The aim of the verification was to make an inventory of the assets and liabilities of the Payment Bureaus in order to identify assets to be distributed to either public or private sector institutions. The financial verification confirmed the existence of the assets and liabilities shown on the balance sheets of the payment bureaus.

The IAG and the relevant government departments have established different working groups with the task to develop precise implementation plans and to identify the mechanism for transferring each activity currently performed by the Payment Bureaus to public or private sector institutions. Typically, the working group is mandated to negotiate a plan acceptable to both the Payment Bureaus and the receiving institutions for moving each function to its new home. The

following working groups have already been established: Statistics, Tax and contribution collection and information, Customs collection and information and Privatization activities. The working group for the transfer of the revenue collection and distribution function will be established shortly. It is projected that the first function that will be transferred out of the Payment Bureaus (and to the Entity Statistical Agencies) is the Statistics function, during the summer of 2000.

When planning the transfer of the Payment Bureau functions, the working groups do address the human resources issue such as the identification of the employees who will follow the transfer and the large number of employees of the Payment Bureau who will become redundant. The IAG is currently preparing a plan on how to support those employees, possibly with a mix of counseling, training as well as loans for the opening a private business.

The effort to eliminate the Payments Bureau in BiH is well underway and progressing in an orderly manner. The use of physical and technical resources remaining after the transfer of the functions from Payments Bureau will be left to the Entity Governments and Governance Boards of the Payment Bureaus. However, the main criterion is that remaining institution be privately owned.

**Table 15 : Monetary and Financial Sector Survey**

End-of-period	Broad Money (M2)	Narrow Money (M1)	Million KM		
			Commercial Banks Claims on the Economy (excl. Gov.)		
			BiH	Federation	RS
30.09.97	971	354			
31.12.97	1,178	252	2,306	1,764	538
31.03.98	1,166	235	2,603	1,845	757
30.06.98	1,140	202	2,576	1,852	723
30.09.98	1,321	247	2,624	1,848	776
31.12.98	1,547	310	2,808	1,906	901
31.01.99	1,544	302	2,837	1,917	920
28.02.99	1,492	318	2,757	1,954	803
31.03.99	1,510	332	2,712	1,874	838
30.04.99	1,551	349	2,724	1,891	833
31.05.99	1,565	349	2,729	1,883	846
30.06.99	1,608	378	2,748	1,880	868
31.07.99	1,665	435	2,711	1,832	879
31.08.99	1,742	433	2,723	1,835	888
30.09.99	1,726	542	2,736	1,833	903
31.10.99	1,874	784	2,789	1,876	913
30.11.99	1,980	889	2,862	1,931	931
31.12.99	2,164	1,100	2,799	1,853	946
31.01.00	2,095	1,075	2,757	1,806	951
29.02.00	2,141	1,112	2,801	1,850	951

Source : CBBH

**Table 16 : Commercial Banks Claims on the Economy (excl. Gov.)**

Million KM

	Federation			RS		
	31.12.98	30.6.99	30.9.99	31.12.98	30.6.99	30.9.99
<b>Short-term</b>	633.1	626.9	592.2	282.0	192.7	218.7
<i>public enterprises</i>	194.0	208.0	200.1	5.8	5.7	3.7
<i>private enterprises</i>	385.7	364.5	332.6	150.6	174.5	201.8
<i>others (incl. households)</i>	53.4	54.4	59.5	125.6	12.5	13.2
<b>Long-term</b>	1,272.7	1,251.7	1,241.0	619.3	675.2	684.2
<i>public enterprises</i>	897.0	864.8	867.1	3.1	3.4	3.4
<i>private enterprises</i>	170.7	172.7	187.8	612.8	668.5	677.4
<i>others (incl. households)</i>	205.0	214.1	186.2	3.4	3.3	3.4
<b>TOTAL</b>	1,905.8	1,878.6	1,833.2	901.3	867.9	902.9

Source : CBBH

**Table 17 : Lending Interest Rates (Annual %)**

Bank	Short-Term Credits	
	Minimum	Maximum
BH banka Sarajevo	19.56	28.46
Gospodarska banka Sarajevo	18	30
Kamel banka Tesanj	30	36
Komercijalna banka Tuzla	8.17	40.27
Market banka Sarajevo	12	36
Postanska banka Sarajevo	19	26
Tuzlanska banka Tuzla	26.82	40.78
Universal banka Sarajevo	19	30.64
Union banka Sarajevo	12.68	21.98
UPI banka Sarajevo	16.0	26.8
Central Profit banka	10.73	16.87
Gospodarska banka Mostar	8.4	18
Hrvatska postanska banka Herceg-Bosna	9	24
Agroprom banka	12	18
Kristal banka	12	18

Source : CBBH

## VIII. Privatization

### A. FEDERATION

According to an update of October 1999, there are 1,610 enterprises up for privatization in the **Federation** (of these 101 enterprises are not operating and in 81 enterprises the State has only a minority equity share). The number of enterprises going to the Small-Scale Privatization program is 387 (the SSP concerns trading, catering, services enterprises, road transport, non-core and unused assets of large enterprises, municipal business premises, and enterprises with fewer than 50 employees and less than DM 500,000 in totals assets. The number of enterprises going to the Large-Scale Privatization program (LSP) is 1,068 (enterprises are required to develop their own privatization plan and prepare an opening balance sheet; auctions, tenders, direct sales agreements and public offering of shares are the principal methods for selling the enterprises. Ultimately, about 200 large enterprises are expected to be privatized through tender. A number of them (88) will receive privatization preparation assistance from international advisers.

For SSP, the Law requires at least 35% cash payment and the balance to be made up in cash or (citizens) claims. Any combination of cash and claims can be used to purchase assets sold under mass privatization.

The Privatization Agency has created citizen claim accounts of different types:

- General claim (provided to all citizens based on number of working years)
- Frozen Foreign Currency claims
- Military Back Pay (to members of the armies of BH and police during the war)
- Pension Arrears
- Restitution (claims to compensate former owners who were deprived of property by forceful acts of the State; however, a Restitution Law has still to pass Parliament)

Citizens can invest privatization claims in Privatization Investment Funds; these institutions will be intermediaries in administering privatization transactions between citizens and enterprises slated for privatization. However, no Public Offering of Shares has been effectively announced and no PIF is currently operating.

Citizens occupying apartments with existing tenancy rights – they are an estimated 70,000 in this category -- have the right and opportunity to purchase his/her apartment. Buyers may be eligible for discounts based on accumulated working experience, military and police service, wartime working duty, war victims and for cash payment. The owners of apartments – enterprises, municipalities, etc – will themselves execute sales.

As of May 15, 2000 the ten Cantonal Privatization Agencies and Federal Privatization Agency had announced 1,915 auctions/tenders to sell off 3,802 objects. 813 auctions/tenders were effectively held selling 1,078 objects (leaving 1,205 objects unsold). The objects were sold for KM 217.7 million.



In the meantime, the first international tender was concluded for the Kakanj cement plant. The new German owner acquired a majority shareholding (51%) for KM 55 million – 6 million more than requested by the tender – and the investor commits himself to invest another KM 100 million in the modernization and reconstruction of capacities.<sup>25</sup> Another major asset sold through tender was the Holiday Inn (Sarajevo). In the absence of foreign investors interest, the 51% equity stake in the hotel was sold to a domestic company against a significant discount.

## **B. REPUBLIKA SRPSKA**

In the **Republika Srpska**, the privatization process is somewhat different. Citizens are eligible for a voucher (a general claim equal for all citizens, specific claims related for veterans and families of killed soldiers or missing in action). Registration of citizens starts on January 3, 2000, for 45 days; the Ministry of Interior database has 1.4 million records and another 780,000 records of refugees and Displaced Persons exist. The Directorate for Privatization expects at least 94% of the estimated population to register. Holders of lost foreign currency savings are provided an opportunity to convert all or part of their savings into coupons, which are treated as cash equivalents at cash sales. In a later stage, holders will be given the opportunity to convert savings into certificates for apartments and purchase of state-owned business premises. Restitution is not provided based on the current privatization legislation but a separate Restitution Law has been drafted.

Small-scale enterprises (firms with less than KM 300,000 in capital) will be privatized through a combination of cash and coupon sales. Assets of large-scale enterprises will be sold as follows: at least 55 percent for vouchers, 15 percent for restitution and pension funds, and the remaining 30 percent to strategic investors for cash or investment tenders or through remaining vouchers, cash, or coupons. Strategic enterprises will be privatized (partly by Public Offering) as individual projects approved by the Government.<sup>26 27</sup>

Enterprise preparation involves ownership transformation, Opening Balance Sheet preparation, Privatization Plan preparation. As of May 5, 2000 nineteen companies had been privatized, 1,121 companies have their data entered in the Journal, 954 have submitted privatization plans (out of whom 721 are in a correction process and 214 are approved). Partial (pre-war Markovic) privatization is recognized in 372 companies.

As of April 13, 2000 fifty-one objects had been proposed in auctions and nineteen were sold successfully for a value of KM 3 million.

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<sup>25</sup> Reportedly, *Cementara Kakanj* has an annual production capacity of 700,000 tons. The *Lukavac Fabrika Cementa* has a 342,000 ton capacity. Production in the Federation amounted to 547,000 ton (1999). Another 400,000 ton are believed to be imported from Croatia. We estimate cement consumption at about 280 kg per capita (at least) compared to an EU average of 467 kg per capita.

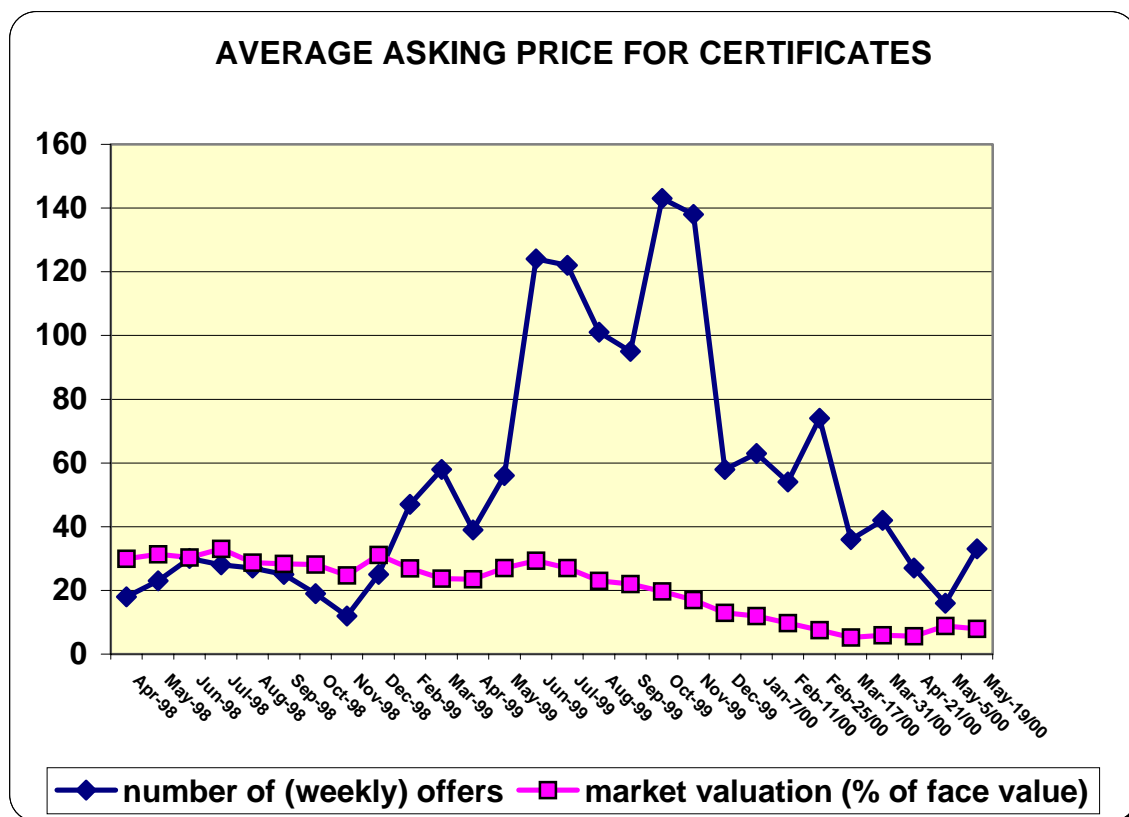
<sup>26</sup> The number of strategic enterprises is currently 61.

<sup>27</sup> Base on the book value of assets (June 1998), the assets to be sold in the RS privatization program are worth KM 8 billion.

### C. TRADING OF CLAIMS

Claims that can be used to bid on assets in the Federation privatization process are being traded since more than two years. Sellers of claims place advertisements in newspapers, in particular in the commercial weekly “Oglasi” published in Sarajevo. The ads usually quote the face value and often quote an asking price.

The average asking price for claims used to hover between 20 and 40%, until September 1999, averaging about 30%. However, from July 1999 on the average asking price started to slide reaching 12% in December 1999. The decline continued in 2000 with the average asking price now being between 5% and 8% of the face value. The number of offers published is probably only a fraction of the claims that are being traded, as brokers have set up a business of buying retail and selling wholesale, often at even larger discounts (2-3% of face value).



**Sources of information (web pages) about BiH<sup>28</sup>**

**<http://www.europa.eu.int/>**

- The main web page of the European Union, with links to all of the EU's major agencies and programs

**<http://www.seerecon.org/>**

- Economic reconstruction and development in South East Europe – web page presented jointly by European Commission and World Bank: key official documents, regional reconstruction and development programs, donor programs, regional initiatives (including Stability Pact), business and investment opportunities, events, focus, news etc.

**<http://www.ebrd.org> (<http://www.ebrd.com>)**

- The European Bank for Reconstruction and Development: operations, business information, procurement, transition reports, environment, finance, etc.
- BiH reports: <http://www.ebrd.org/english/opera/Country/bosnfact.htm> (EBRD signed projects in BiH, Country Investment Profile 1999, EBRD activities in South-East Europe, activities and key objectives etc.)
- BiH reports: [http://www.ebrd.org/cgi-bin/AT-ebrd\\_searchsearch.exe](http://www.ebrd.org/cgi-bin/AT-ebrd_searchsearch.exe) (list of the EBRD documents about BiH)

**<http://www.imf.org/external/country/BIH/index.htm>**

- International Monetary Fund. Bosnia and Herzegovina in the IMF, news, publications, country info, etc

**<http://www.worldbank.org/> (search mode/country/Bosnia and Herzegovina)**

- BiH country overview, data and contacts, projects, resources, donor programs, IFC facts sheet for BiH

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<sup>28</sup> Compiled by the Private Sector Development Task Force Secretariat

**<http://www.worldbank.org.ba/>**

- The World Bank Group Country Office in Bosnia and Herzegovina: address and contacts, sector work and reports, press releases, data and publications, project/business opportunities, etc.
- Links to: Local Initiatives Project/Micro-enterprise Lending, Bosnian Health Portal
- Links to web sites: Central Bank of Bosnia and Herzegovina, European Bank for Reconstruction and Development (EBRD), European Commission (EC), European Community Monitoring Mission, European Stability Initiative (ESI), International Council of Voluntary Agencies (ICVA), International Crisis Group (ICG), International Management Group (IMG), International Monetary Fund (IMF), International Organization for Migration (IOM), NATO Stabilization Force, NETAID, Organization for Security and Co-ordination in Europe (OSCE), Office of the High Representative (OHR), Repatriation Information Center, United Nations Development Program (UNDP), United Nations Educational, Scientific and Cultural Organization (UNESCO), United Nations High Commission for Refugees (UNHCR), United Nations Mine Action Center, United Nations Mission in Bosnia and Herzegovina, United States Agency for International Development (USAID), World Bank, World Food Program (WFP) and World Health Organization (WHO)

**<http://www.ohr.int/>**

- Profile of the OHR BiH (Office of the High Representative in Bosnia and Herzegovina), speeches/statements, decisions, property legislation, economic newsletter, reports, Brcko arbitration etc.
- Links: SFOR briefings and links to the local radio/TV stations

**<http://www.stabilitypact.org/>**

- Profile of the South-Eastern Europe Stability Pact, official statements/documents, meeting schedule and agenda
- Links to: EU/EC, OSCE, UN, NATO, OECD, WEU, IMF, WB, EIB, EBRD, OHR, BSEC, SECI and CEI

**<http://www.info.usaid.gov/countries/ba/>**

- USAID: Bosnia and Herzegovina country profile, economic growth recourses, environment recourses, etc.
- USAID Office BiH Sarajevo (**[www.usaid.ba](http://www.usaid.ba)**)
- BiH Economic Update (quarterly reports): **[www.usaid.ba/information/sheets.htm](http://www.usaid.ba/information/sheets.htm)**

**<http://www.usis.com.ba/>**

- US Embassy Sarajevo: news, education, recourses, activities, international organizations, commercial services, USAID, public affairs, highlights, etc.

**<http://www.img.ba/index.html>**

- International Management Group (IMG): databases (PIMS and RCM) and reports on reconstruction and rehabilitation, energy, telecommunication, housing and social buildings, transport, water sanitation and solid waste, etc.

**<http://www.mvp.gov.ba/>**

- Ministry of Foreign Affairs of the Bosnia and Herzegovina: structure, contacts, BiH Parliament, Presidency of BiH, etc.
- Links: OHR, OSCE, Stability Pact, UN, EU, EC, NATO, CEI, BiH media agencies (BH Press News Agency, OBN, Oslobođenje, Dnevni Avaz, Hrvatska Rijec, Reporter, BH Dani, Slobodna Bosna)

**<http://www.cbbh.gov.ba/>**

- The Central Bank of the Bosnia and Herzegovina

**<http://www.gksoft.com/govt/en/ba.html>**

- Governments on the WWW – Bosnia and Herzegovina: State institutions, Entity level institutions, Municipal level institutions, BiH diplomatic representations in foreign countries, political parties, tourist information, etc.

**<http://www.apf.com.ba/>**

- The Agency for Privatization of the Federation of BiH: model of privatization, privatization laws, enterprise lists etc.

**<http://www.rsprivatizacija.com>**

- The Republika Srpska Directorate for Privatization (Republika Srpska, Bosnia and Herzegovina): public information and education, laws and regulations (incl. privatization of enterprises and banks at: **<http://www.srpska.org/development/privatisation.html>**)

**<http://www.komorabih.com/>**

- The Chamber of Economy of the Bosnia and Herzegovina: BH companies directory, economic map of BiH, reconstruction and development projects, commodity and services exchange, current issues and publications, conferences, forums, advertising, etc

**<http://www.pksa.com.ba>**

- The Chamber of Economy of the Sarajevo Canton: current events and news, professional education, tenders, general information on Sarajevo Canton economy, published tenders of BiH companies, legislation, business magazine, summary of the current BiH laws and other regulations, companies (database with over 7500 companies available), current projects, offer and demand, export opportunities, grants and loans, etc.

**The list of Bosnia and Herzegovina *BA* Web domains:**

<a href="http://www.apf.com.ba">http://www.apf.com.ba</a>	<a href="http://www.hercegovina.ba">http://www.hercegovina.ba</a>	<a href="http://www.soros.org.ba">http://www.soros.org.ba</a>
<a href="http://www.bam.delta.com.ba">http://www.bam.delta.com.ba</a>	<a href="http://www.impact.com.ba">http://www.impact.com.ba</a>	<a href="http://www.starimost.ba">http://www.starimost.ba</a>
<a href="http://www.bih.net.ba">http://www.bih.net.ba</a>	<a href="http://www.infostudy.ba">http://www.infostudy.ba</a>	<a href="http://www.stelekt.untz.ba">http://www.stelekt.untz.ba</a>
<a href="http://www.biharbet.ba">http://www.biharbet.ba</a>	<a href="http://www.interlink.wus.org.ba">http://www.interlink.wus.org.ba</a>	<a href="http://www.stolac.ba">http://www.stolac.ba</a>
<a href="http://www.bih-online.ba">http://www.bih-online.ba</a>	<a href="http://www.kameleon.delta.com.ba">http://www.kameleon.delta.com.ba</a>	<a href="http://www.tradepoint.ba">http://www.tradepoint.ba</a>
<a href="http://www.bosna.ba">http://www.bosna.ba</a>	<a href="http://www.kim.ba">http://www.kim.ba</a>	<a href="http://www.tuzla.ba">http://www.tuzla.ba</a>
<a href="http://www.bosnia.ba">http://www.bosnia.ba</a>	<a href="http://www.kombanka.com.ba">http://www.kombanka.com.ba</a>	<a href="http://www.tuzla.delta.com.ba">http://www.tuzla.delta.com.ba</a>
<a href="http://www.cob.net.ba">http://www.cob.net.ba</a>	<a href="http://www.lora.com.ba">http://www.lora.com.ba</a>	<a href="http://www.untz.ba">http://www.untz.ba</a>
<a href="http://www.cobiss.ba">http://www.cobiss.ba</a>	<a href="http://www.miz.ba">http://www.miz.ba</a>	<a href="http://www.usis.com.ba">http://www.usis.com.ba</a>
<a href="http://www.crcp.org.ba">http://www.crcp.org.ba</a>	<a href="http://www.mostar.ba">http://www.mostar.ba</a>	<a href="http://www.utic.net.ba">http://www.utic.net.ba</a>
<a href="http://www.crp.com.ba">http://www.crp.com.ba</a>	<a href="http://www.mvp.gov.ba">http://www.mvp.gov.ba</a>	<a href="http://www.vecernjenovine.ba">http://www.vecernjenovine.ba</a>
<a href="http://www.delta.com.ba">http://www.delta.com.ba</a>	<a href="http://www.ohro.ba">http://www.ohro.ba</a>	<a href="http://www.wus.org.ba">http://www.wus.org.ba</a>
<a href="http://www.djesi.ba">http://www.djesi.ba</a>	<a href="http://www.ping.ba">http://www.ping.ba</a>	<a href="http://www.zira.com.ba">http://www.zira.com.ba</a>
<a href="http://www.ekis.com.ba">http://www.ekis.com.ba</a>	<a href="http://www.prijedor.ba">http://www.prijedor.ba</a>	<a href="http://etf.unbl.ba">http://etf.unbl.ba</a>
<a href="http://www.genelec.ba">http://www.genelec.ba</a>	<a href="http://www.sloboda-dita.delta.com.ba">http://www.sloboda-dita.delta.com.ba</a>	<a href="http://sunce.biharnet.ba">http://sunce.biharnet.ba</a>

## Profile of the industrial sector in the Federation of Bosnia and Herzegovina<sup>29</sup>

### 1. INTRODUCTION

Bosnia and Herzegovina accounted for one fifth of the former Yugoslavia and 18.4% of total population. In 1990, half of the Bosnia and Herzegovina's GNP was generated in industry.

**Table 1.1. : Development indicators for Bosnia and Herzegovina in 1990**

	I n d i c a t o r s	Rep. of BH	Share in former Yugoslavia (%)
1.	Total area	51,197 km <sup>2</sup>	20.0
2.	Total population	4,377,033	18.4
3.	Gross national product (billion US\$)	10,425	-
4.	Gross national income (billion US\$)	8,849	-
5.	Income per capita (US\$)	2,022	-
6.	Employment rate	1,054,000	15.8
	- businesses	898,400	-
	- non-businesses	155,800	-
7.	Industrial production:		
	- Electrical energy GWh	14,632	17.7
	- Coal (thousands of t)	17,927	23.6
	- Coke (thousands of t)	1,723	75.7
	- Raw iron (thousands of t)	1,284	55.5
	- Raw steel (thousands of t)	1,421	39.4
	- Reinforced steel (thousands of t)	467	87.6
	- Bauxite ore (thousands of t)	1,703	57.7
8.	Export (million US\$)	2,055.8	-
9.	Import (million US\$)	1,866.7	-
10.	Foreign exchange surplus (million US\$)	189.1	-

In spite of the unfavorable performance and inefficacy of the socialist economic system, Bosnia and Herzegovina had reached a significant level of economic and overall development. Exceptional resources in forests, certain ores and minerals, mountainous landscapes, lakes and

<sup>29</sup> This report was prepared (December 1999) by the Sarajevo-based *Institute for Organization and Economics*. The report has been sponsored by USAID-Macroeconomic Technical Assistance Project.

rivers, were made more accessible with infrastructure development. The symbiosis between nature and human efforts materialized in Winter Olympics in 1994, as well as other projects and accomplishments.

Bosnia and Herzegovina had reached a level of economic development that placed it in the league of middle-income countries. With a GNP per capita of 2,000 US\$ (1990), a skilled and motivated labor force, and transformation of the economy having started, the outlook was not so gloomy.

The economy of Bosnia and Herzegovina was characterized by a **high level of integration into the former Yugoslav economic territory** and by **the prevalence of the basic raw material and energy production** branches (mining, metallurgy, and chemical industry). Furthermore, in spite of the fact that the economy of Bosnia and Herzegovina was supplying Yugoslavia with a range of strategic products, its products were also exposed to export competition. In addition to the traditional export branches (wood processing, textile industry, leather and footwear industry and non-ferrous metallurgy), significant exports were recorded in metal processing, electronic industry and other branches. The conclusion of advanced forms of economic cooperation with foreign partners constituted the basis for export development in these branches.

Bosnia and Herzegovina participated in investment projects abroad and built up a reputation with the realization of power plants and other facilities.

After four years of war and devastation, industrial production, gross national income and employment had fallen to some 15% of the pre-war level. Exports were only a fraction of the pre-war level.

New investments will be the main generator to revitalize the overall economy and employment in particular. Industrial policy must contribute to the creation of a favorable environment. The pre-war BH industry structure showed a number of **weaknesses**.

- Concentration of production in the base and raw material branches (close to 40% of the production of former Yugoslavia);
- High energy intensity of production (in the base and raw material sector it is even up to 6 times higher than in the processing one);
- High percentage of intermediary phases of production, with a relatively low value added;
- High level of integration through large conglomerate-type of enterprises; of the 10 largest enterprises in former Yugoslavia, 4 are in Bosnia and Herzegovina, and these were employing almost half of the total number of employees in Bosnia and Herzegovina's industry;
- High capital intensity in many of the branches and thus below-average labor intensity (e.g. mining, thermal power plants, ferrous and non-ferrous metallurgy);
- High transport costs;
- High import dependence of the majority of industrial groups;
- Exceptionally high integration rate of the base, raw material and energy sector and the military production into the Yugoslav economy, which implies low export orientation.



The territory of the **Federation of BiH**, in particular, features the following characteristics.

- An above-average concentration of the base, raw material and energy sector capacities, as well as the largest number of major enterprises;
- An above-average number of displaced persons and refugees;
- Rural to urban migration;
- Important war damages to resources, capacities and other tangible assets;
- Suspended operations of many of business capacities, even to date;
- A high rate of obsolescence of equipment and technologies,
- A below-average level of resources in agriculture.

The significant investments into the reconstruction of infrastructure capacities in the area of social services, within the program of reconstruction and redevelopment of the Federation of BiH, have not yet effected an improvement in the economic structure. Significant future growth in production and employment will require a large amount of investment due to the high minimum efficient level of investment into capacities to be reactivated and due to the necessary investment into the restructuring of several branches.

## 2. ANALYSIS OF THE INDUSTRY SECTOR OF THE FEDERATION OF BIH

The overview and analysis hereafter are based on data released for 1997 and 1998, as data for 1999 are not yet available.

### 2.1. Gross Output

Industry & mining is the main sector, accounting for 44% and 45.8% of total Gross Output in 1997 and 1998 (Table 2.1.). The leading sub-sectors (Annex-1) are electrical power supply (8.0% and 9.7%), food/beverages/tobacco production (8.2% and 8.9%), production and processing of metal (5.8% and 6.1%) and wood processing (2.9%).

A significant share in total Gross Output was realized in the following sectors: trade (21.9% and 18.0%), construction (13.8% and 15.3%), and transport and communications (9.5% and 10.4%).

**Table 2.1. : Gross Output in the Federation of BiH (1997 and 1998)**

- x 1,000 KM -

	Gross Output		Share in %		Index <u>1998</u> 1997
	1997	1998	1997	1998	
<b>TOTAL</b>	6,343,664	7,368,885			116
<b>INDUSTRY &amp; MINING</b>	2,794,661	3,378,288	100.0	100.0	121
<b>1. MINING</b>	223,688	260,890	8.0	7.7	117
<b>2. MANUFACTURING</b>	2,063,546	2,402,920	73.8	71.1	116
<b>3. POWER SUPPLY</b>	507,427	714,478	18.2	21.2	141

Table 2.2. shows that industrial production in the Federation of BiH is very much concentrated in intermediary and capital goods whilst consumer goods represent less than one third of production.

**Table 2.2. : Structure of industrial production by economic purpose**

	Structure in %	
	1997	1998
<b>TOTAL INDUSTRY</b>	<b>100</b>	<b>100</b>
1. Intermediary and capital goods	66.3	70.6
2. Consumer goods	33.6	29.2
3. Not classified	0.1	0.2

Table 2.3. shows the geographical breakdown of industrial production. It is interesting to notice that 3 Cantons – but Sarajevo is not among these three – account for three quarters of industrial production.

**Table 2.3. : Breakdown of industrial production by Canton (Federation of BiH)**

<b>C a n t o n</b>	<b>Structure in %</b>		
	<b>1997</b>	<b>1998</b>	<b>Jan-Aug 1999</b>
1. UNA-SANA	4.0	3.9	4.1
2. POSAVINA	0.2	0.1	0.1
3. TUZLA	31.0	29.8	27.9
4. ZENICA-DOBOJ	25.5	23.4	21.4
5. PODRINJE (Gorazde)	0.4	0.4	0.5
6. CENTRAL BOSNIA	7.8	7.3	6.7
7. HERZEGOVINA-NERETVA	16.0	21.3	25.4
8. WEST HERZEGOVINA	3.8	3.1	2.7
9. SARAJEVO	10.5	10.1	10.5
10. HERZEG-BOSNIA (Livno)	0.8	0.7	0.7
<b>FEDERATION OF BH</b>	<b>100</b>	<b>100</b>	<b>100</b>

## **2.2. Value Added**

Sector Value Added is the difference between Gross Output and intermediary consumption. The sum of Sector Value Added is Gross National Product. Value added comprises of 1) depreciation, 2) indirect taxes (net of subsidies), 3) labor remuneration, and, 4) operating surplus.

The share of industry in total Value Added is about equivalent to the industry's share in Gross Output (Table 2.4. and Annex-2).

**Table 2.4. : Gross Value Added in the Federation of BiH (1997 and 1998)**

- x 1,000 KM -

	Gross Value Added		Share in %		INDEX  <u>1998</u> <u>1997</u>
	1997	1998	1997	1998	
<b>INDUSTRY &amp; MINING</b>	1.122.598	1.265.332	100,0	100,0	113
<b>1. MINING</b>	100.621	108.649	9,0	8,6	108
<b>2. MANUFACTURING</b>	806.642	805.212	71,9	63,6	100
<b>3. POWER SUPPLY</b>	215.335	351.471	19,1	27,8	163

Table 2.5. shows the composition of Gross Output in each sector. Intermediary consumption is 51.3% of total Gross Output (1998). The share of intermediary consumption is 66% in manufacturing and 70% in construction. The Operating Surplus is just 5% of total Gross Output. The Operating Surplus is negative in mining, manufacturing and power supply. Therefore, the picture of industry is gloomier than its share in Gross Output would suggest.

**Table 2.5. : Structure of Gross Output and Value Added in Federation of BiH (1998)**

- % -

ACTIVITY	Gross Output	Intermediary Consumption	Value Added	Depreciation	Labor Remuneration	Operating surplus
<b>TOTAL</b>	<b>100</b>	<b>51.3</b>	<b>48.7</b>	<b>9.3</b>	<b>28.1</b>	<b>5.3</b>
Agriculture	100	50.3	49.7	4.7	5.0	39.3
Fisheries	100	51.3	48.7	7.8	32.6	3.6
<b>Mining</b>	<b>100</b>	<b>57.6</b>	<b>42.4</b>	<b>290.3</b>	<b>53.2</b>	<b>- 40.8</b>
<b>Manufacturing</b>	<b>100</b>	<b>66.3</b>	<b>33.7</b>	<b>8.5</b>	<b>20.1</b>	<b>- 1.0</b>
<b>Power supply</b>	<b>100</b>	<b>52.3</b>	<b>47.7</b>	<b>36.3</b>	<b>22.0</b>	<b>- 14.1</b>
Construction	100	70.1	29.9	4.3	17.1	7.3
Trade	100	39.9	60.1	5.2	22.2	8.6
Catering	100	53.4	46.6	7.8	29.2	- 0.1
Transport, communications	100	45.1	54.9	18.4	29.7	3.8
Financial services	100	31.6	68.4	5.5	37.8	17.9
Real estate business	100	61.4	38.6	5.5	25.8	3.7
Public administration	100	29.7	70.3	4.0	66.3	-
Education	100	23.8	76.2	3.1	72.3	0.6
Health care & welfare	100	36.8	63.2	4.9	57.9	0.3
Other	100	49.8	50.2	9.1	35.1	5.2

The difference between Value Added and the sum of Depreciation, Labor Remuneration and Operating Surplus net indirect taxes (sales tax - minus subventions).

## 2.3. Investments

Table 2.6. and Table 2.7. show respectively investment by source of financing and investment by purpose. Total investments in 1997 amounted to KM 893,3 million on the territory of the Federation of BiH, equivalent to about 20 % of GDP. This percentage is not exceptionally small. Self-financing constitutes 56.5% of total investment whilst loans amount to 17.6%.

The insufficiency of financial resources for investment in existing and new production capacities is a principal restricting factor for a speedier recovery, restructuring and development. A main source of additional financing in the post-war period – international assistance – is drying up steadily. Industry has received a relatively small share of those funds. In the period from January 1, 1996 until August 31, 1999, the International Community committed about US\$ 5 billion of funds for the implementation of 4,567 projects. Of the total funds committed, 75% are donations and 25% are loans. The share of credit lines to the economy, in spite of an increase by 30% in 1999, is only 15.35% of the total amount of funds implemented.

According to Table 2.7., the sub-sector of electrical power supply has attracted the largest investment (approximately KM 250 million). Whilst this high share is rational, considering demands economic and household sectors, it is disappointing to observe that the industrial sector (KM 210.4 million) invested less than the trade sector (KM 217.8 million) in 1998.

**Table 2.6. : Investments by sources of financing in the Federation of BiH (1997)**

	<b>TOTAL</b>	<b>Retained Earnings</b>	<b>New Equity</b>	<b>Loans</b>	<b>Budget</b>	<b>Other Sources</b>
Investment (x 1,000 KM)	893,359	497,903	21,670	151,751	5,041	216,994
<i>Structure (%)</i>	<i>100</i>	<i>56.5</i>	<i>2.5</i>	<i>17.6</i>	<i>0.6</i>	<i>25.1</i>
Investments by enterprises	100	56.6	2.5	15.8	0.6	24.5
<b>1. Industry &amp; mining</b>	<b>100</b>	<b>16.8</b>	<b>1.6</b>	<b>6.7</b>	<b>0.1</b>	<b>13.5</b>
2. Agriculture & fisheries	100	45.9	-	48.5	2.6	2.9
3. Forestry	100	53.5	3.6	19.8	0.4	22.6
4. Water management	100	38.8	-	-	-	61.2
5. Construction	100	57.0	0.5	33.2	-	9.3
6. Transport ,communications	100	71.4	1.4	8.6	0.5	18.2
7. Trade	100	69.8	1.0	26.8	-	2.4
8. Catering & tourism	100	42.7	1.2	41.3	5.3	9.5
9. Handicraft	100	74.7	2.2	17.0	-	6.2
10. Housing and utilities	100	22.6	0.7	27.0	4.3	45.4
11. Financial, technical and business services	100	84.2	1.9	9.0	-	4.9
12. Education & information	100	30.4	5.8	2.2	0.8	60.9
13. Health care & welfare	100	32.7	1.0	3.1	0.2	63.0
14. Public administration	100	88.0	1.8	0.4	1.4	8.4
Investment by farms	100	31.3	-	51.5	-	17.2

**Table 2.7. : Investment by purpose in the Federation of BiH (1998)**

	<b>- in 000 KM -</b>	<b>Total Column</b>	<b>Total Row</b>	<b>A %</b>	<b>B %</b>	<b>C %</b>	<b>D %</b>
Agriculture, forestry	30,149	2.2	100	12.9	42.6	29.3	28.0
Fisheries	94	-	100	-	10.6	66.0	24.4
Mining	23,387	1.7	100	-	46.8	28.9	24.2
- <i>Extraction of energy raw materials</i>	9,551	0.7	100	-	40.5	2.0	57.5
- <i>Extraction of stone, gravel and sand</i>	13,836	1.0	100	-	51.2	47.5	1.3
<b>Manufacturing</b>	<b>210,418</b>	<b>15.0</b>	<b>100</b>	<b>0.1</b>	<b>42.2</b>	<b>45.9</b>	<b>11.8</b>
- <i>Food, beverages, tobacco</i>	53,795	3.8	100	-	37.6	49.8	12.6
- <i>Textiles &amp; clothing</i>	5,493	0.4	100	-	44.1	44.2	0.1
- <i>Leather, leather products</i>	1,011	0.1	100	-	82.9	7.4	9.7
- <i>Wood processing</i>	28,034	2.0	100	-	55.7	39.1	5.2
- <i>Paper, publishing</i>	15,627	1.1	100	-	41.0	51.8	7.2
- <i>Coke and derivatives</i>	1,782	0.1	100	-	96.7	-	3.3
- <i>Chemicals</i>	15,134	1.1	100	0.1	64.5	21.2	14.2
- <i>Rubber</i>	4,302	0.3	100	-	66.8	26.9	6.3
- <i>Other non-metal products</i>	14,527	1.0	100	-	36.3	51.0	12.6
- <i>Metal processing</i>	41,844	3.0	100	-	29.0	61.4	9.6
- <i>Machines and devices</i>	2,695	0.2	100	-	9.8	53.2	37.0
- <i>Electronic, optical equip.</i>	9,284	0.7	100	-	14.9	43.8	41.3
- <i>Transport equipment</i>	7,448	0.5	100	-	43.2	43.9	12.9
- <i>Other manufacturing</i>	9,443	0.7	100	-	71.2	21.1	7.7
Electrical power supply	250,138	17.8	100	0.1	27.9	59.7	12.3
Construction	148,030	10.6	100	0.1	36.7	56.1	7.2
Trade	217,800	15.5	100	0.1	60.8	32.0	7.2
Catering	26,205	1.9	100	-	27.4	61.8	10.8
Transport, storage & communications	169,865	12.1	100	-	47.7	26.8	25.6
Financial services	77,731	5.5	100	3.6	32.8	54.5	12.7
Real estate services	35,273	2.5	100	-	46.3	37.8	15.9
Public administration	60,288	4.3	100	-	28.0	53.9	18.1
Education	40,884	2.9	100	-	21.0	79.4	26.7
Health care & welfare	79,206	5.7	100	-	21.1	54.4	24.5
Other services	32,095	2.3	100	-	45.3	49.6	5.1
<b>GRAND TOTAL</b>	<b>1,401,562</b>	<b>100.0</b>	<b>100</b>	<b>0.7</b>	<b>40.8</b>	<b>45.2</b>	<b>14.2</b>

**Explanation :**

A – Environmental protection

B – New capacities

C – Reconstruction, modernization and expansion

D – Maintenance of capacities

### 3. EMPLOYMENT

An increase in the employment level is an indicator of economic activity, a generator of aggregate demand and a proxy of household welfare. Table 3.1. shows the breakdown of *registered* employment in the Federation of BiH.

**Table 3.1. : Employment by branch in the Federation of BiH**

	Employment				Structure (%)		INDEX  <u>1999</u> <u>1991</u>
	1991 <sup>1)</sup>	1997	1998	August 1999	1991	1999	
<b>TOTAL</b>	<b>631,020</b>	<b>373,400</b>	<b>395,445</b>	<b>408,004</b>	<b>100.0</b>	<b>100.0</b>	<b>64.7</b>
<b>Enterprises</b>	<b>529,921</b>	<b>260,600</b>	<b>271,205</b>	<b>280,665</b>	<b>84.0</b>	<b>68.8</b>	<b>53.0</b>
<b>Other entities</b>	<b>101,099</b>	<b>112,800</b>	<b>124,240</b>	<b>127,339</b>	<b>16.0</b>	<b>31.2</b>	<b>126.0</b>
Industry and mining	283,286	126,500	123,086	119,086	44.9	29.2	42.0
Agriculture, fisheries	10,294	5,300	4,887	4,791	1.6	1.2	46.5
Forestry	13,446	5,900	5,723	5,736	2.1	1.4	42.7
Water management	1,123	600	592	543	0.2	0.1	52.7
Construction	45,141	24,100	23,070	22,816	7.2	5.6	50.5
Transport and Communications	42,649	23,700	25,771	28,580	6.8	7.0	67.0
Trade	57,797	35,400	37,977	41,218	9.2	10.1	71.3
Catering and tourism	21,174	7,500	11,410	14,438	3.4	3.5	68.2
Handicraft	18,443	6,200	14,086	19,468	2.9	4.8	105.6
Housing and utilities	13,076	9,000	9,114	9,333	2.1	2.3	71.4
Financial, other services	23,492	16,400	15,489	14,656	3.7	3.6	62.4
Education and culture	42,571	34,700	37,765	36,583	6.7	9.0	85.9
Health care and welfare	35,070	20,300	27,171	28,236	5.6	6.9	80.5
Public administration and social insurance	23,458	57,800	61,304	62,520	3.7	15.3	266.5

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1) Employees from the areas which belong to the Federation of Bosnia and Herzegovina according to the present territorial distribution

The following observations can be made :

- total employment in August 1999 was less than two thirds the level of 1991; it should be reminded however that the post-war population (1997 data) is only between 78% and 86% of the pre-war population (Federation territory);

- employment in enterprises is about half the level of 1991 whilst employment in other entities (e.g. employment in public administration more than doubled) exceeds the 1991 level;
- employment in industry is less than half the level observed in 1991;
- the share of employment in industry, in 1991, was 44.9% of total employment; it had fallen to 29.2% in 1999.

Table 3.2. shows the breakdown of employment in industry between mining, manufacturing and electrical power supply.

**Table 3.2. : Employment in industry**

Sector/Branch	Share (%)	
	1997	1998
<b>Industry – Total</b>	<b>100</b>	<b>100</b>
- Mining	14.2	17.0
- Manufacturing	73.1	70.5
- Electrical power supply	12.7	12.5

Manufacturing accounts for 70.5% of industrial employment, in 1998 (73.1% in 1997). The largest branches (1998) are metal production and fabricated metal products, textiles and clothing, food processing and beverages, wood processing.

Pre-war SR of BiH already experienced an endemic unemployment problem. The devastation of part of the economy during the war exacerbated this problem. Table 3.3. shows one calculation of the number of unemployed.<sup>30</sup>

**Table 3.3. : Unemployment**

	Bosnia and Herzegovina	Of which :	
		Federation of BH	Republic of Srpska
Registered unemployment	283,000	208,000	75,000
Hidden unemployment (legacy from pre-war period)	404,000	285,000	119,000
<b>Total unemployment (definition-1)</b>	<b>687,000</b>	<b>493,000</b>	<b>194,000</b>
“New” hidden unemployment in the post-Dayton period	150,000	105,000	45,000
<b>Total unemployment (definition-2)</b>	<b>837,000</b>	<b>598,000</b>	<b>239,000</b>

<sup>30</sup> Employment in an Open Economy, paper presented at the Employment and Transition Seminar, Sarajevo, November 1999, Ilijas Bosnjovic, Ph.D.



The total unemployment estimate is 837,000. This figure seems to be unlikely high (about 56% of the active population). The “hidden” unemployment concept includes “waitlisted” employees (about 100,000 in the Federation and RS combined); the remaining 450,000 *hidden* unemployed would amount to about three quarters of the total number of *self-employed, independent farmers and the unemployed not officially registered* and whose productivity is insufficient to ensure a decent income.

#### 4. ORGANIZATION AND OWNERSHIP OF THE ECONOMY OF THE FEDERATION OF BIH

How vigorous is entrepreneurship in BiH? In the Federation there exist 1.22 registered companies per 100 population (this ratio is normally 5-6 in market economies). By comparison, in the RS, there exist 1.5 companies per 100 population. A number of these companies, private as well as public companies are no longer operational. Table 4.1. shows how business registration evolved between 1997 and 1998. "One-man businesses" account for the larger part of the increase in registered private businesses.

**Table 4.1. : Registered businesses in the Federation of BiH**

	Agriculture Forestry Fishing	Mining Manufacturing Electricity/gas	Construction	Tertiary sector	Total
<b>1997</b>					
State ownership	28	144	64	307	543
Social ownership	70	268	64	379	781
Private ownership	394	3,383	2,595	18,822	25,194
<i>Of which self-employed</i>	233	1,981	1,678	10,725	14,617
Cooperative/Mixed ownership	71	284	108	595	1,058
<b>Total</b>	563	4,079	2,831	20,103	<b>27,576</b>
<b>1998</b>					
State ownership	32	171	73	210	486
Social ownership	33	204	50	256	543
Private ownership	508	4,067	2,846	21,672	29,093
<i>Of which self-employed</i>	338	2,629	1,985	13,741	18,693
Cooperative/Mixed ownership	85	384	136	608	1213
<b>Total</b>	658	4,826	3,105	22,746	<b>31,335</b>

Source : Register/Statistical Yearbook (Federation)

The structure of ownership is expected to evolve further as privatization (through auctions, tenders, private sales, additional capitalization), break-ups, joint ventures and creation of new private enterprises proceed. On the other hand, a significant number of registered companies are not operational; however, they remain listed, as the owner does not bother to initiate formal liquidation.

The rationale behind privatization is that the new owner will have a distinct incentive to restructure his company and pursue profit maximization. However, experiences with privatization in transition economies demonstrate that different privatization models also produce very different patterns of enterprise restructuring and development. For enterprise restructuring to start, the management team requires a decisive mandate from the "new" shareholders.

- So far (until January 2000), privatization has mainly concerned small businesses and assets, through auctions and tenders, and essentially in the services sector as well as business premises in the jurisdiction of the municipalities.
- The privatization process has been slower than anticipated, because of an underdeveloped institutional infrastructure (e.g. investment funds), and because of weak incentives to incumbent managers and *de facto* shareholders to prepare the company for privatization. Potential strategic buyers will be discouraged when the volume of shares offered is less than 50%. On the other hand, citizens have as yet limited expectations as regards to dividends (therefore, certificates are currently sold at 5 to 10% of their face value).
- Privatization fulfills one strategic goal : the change of ownership and settling old debts vis-à-vis citizens (in the form of foreign-currency savings, unpaid salaries, pensions). Strategic redeployment of assets and modernization will nevertheless require an injection of fresh capital.
- The large infrastructure companies remain beyond privatization, for the time being.

## 5. FINANCIAL RESULTS

Data on financial results of enterprises need to be used with caution as they are incomplete. The data cover 18,376 legal entities, or, 60.8% of the legal entities that are obliged to submit periodical statements. Losses represent 8.3% of sales revenue (first 6 months of 1999) and 14.3% of Federation GDP in 1998.

**Table 5.1. : Financial results**

Category	- Million KM -			
	Profits 1998	Losses 1998	Profits I-VI 99	Losses I-VI 99
Private companies	251	84	126	81
<i>share</i>	(58.4 %)	(11.5 %)	(55.4 %)	(16.7 %)
Public enterprises	135	540	77	300
<i>share</i>	(31.3 %)	(73.6 %)	(33.8 %)	(61.7 %)
Other forms of ownership	44	110	25	105
<i>share</i>	(10.3 %)	(14.9 %)	(10.8 %)	(21.6 %)
<b>TOTAL</b>	<b>430</b>	<b>734</b>	<b>228</b>	<b>486</b>

**Source:** Federal Development Planning Institute (Sarajevo, 1999)

**Mining, manufacturing and electricity/gas/water** are responsible for 52% of gross losses in 1998 (58.9% of losses in the first half of 1999) whereas the sector's contribution to Value Added (1998) is 22.4%. In 1998, mining, manufacturing and electricity/gas/water generated KM 381 million in gross losses as against KM 1148.9 million Value Added and KM 718.8 million in compensation of employees (including social security contributions). Therefore, gross losses are about equivalent to net wages paid.

**Table 5.2. : sectoral breakdown of profits and losses (I-VI 99)**

Sector	- Million KM -	
	Profits	Losses
Agriculture,forestry,fisheries	3.8	13.3
Mining	1.0	53.2
Manufacturing	48.7	152.5
Electricity,gas,water	3.1	80.4
Trade	67.2	66.7
Transport,communications	62.3	55.4
Other	42.1	64.6
<b>TOTAL</b>	<b>228.2</b>	<b>486.1</b>

Within the mining, industry and electricity sector, the **largest loss-making branches** are (1998) : coal (KM 111.3 million, 29.2%), electricity (KM 79.5 million, 20.9%), ferrous metal industry (KM 33.4 million, 8.8%), chemicals (KM 20.9 million, 5.5%), wood processing (KM 15.2 million, 4%).

Table 5.3. shows the ranking of industrial branches according to profitability (Net Profits/Revenue) in 1998. 'Revenue' is to be understood as mostly Sales Revenue.

**Table 5.3. : Profitability ranking in industry (1998)**

	Net Profits/Revenue (- losses; + profits) %
Coal	-51.2
Paper	-15.6
Machinebuilding	-15.0
Ferrous metals	-14.8
Electricity	-14.4
Transport equipment	-13.9
Non-metal mineral products	-13.6
Chemicals	-11.8
Footwear and leather products	-10.2
Rubber	-9.9
Textiles and clothing	-9.7
Wood processing	-5.9
Fabricated metal products	-2.1
Construction materials	-1.7
Electrical machinery	0.0
Food products	+ 0.1
Fuel derivatives	+ 0.7
Publishing	+ 2.1
Beverages	+ 3.3
Quarries	+ 6.6
Tobacco	+ 16.7

The sectors on top of the list (loss-making sectors) are generally more capital-intensive than the sectors towards the bottom of the list. Furthermore, out of fourteen sectors suffering **net losses**, eight sectors had in 1998 returned to an industrial production below 10% of the level in 1990. All sectors showing **net profits** had returned (in 1998) to a production level higher than 10% of the level achieved in 1990. The loss making sectors having returned to a production level *significantly above* 10% of the 1990 level are: coal, electricity, footwear and leather products, construction materials.

Interestingly, in the first half of 1999, only 7 companies – with losses of +10 million KM -- accounted for 37.4 % of all losses : **Elektroprivreda BiH, Sarajevo** (electricity), Vodovod I kanalizacija JP Sarajevo (water), Zeljezara Zenica (manufacturing/steel), Zica Sarajevo (manufacturing), **“Kreka-Djurdjevik” doo Rudnici uglja Tuzla** (coal mining), **“Srednja-Bosna” rudnici uglja, doo Kakanj** (coal mining), Zeljeznice BiH (railways).

Another 15 companies – with losses between 1 and 10 million KM – accounted for 11.5 % of all losses : Sarajevo-gas (gas), Izocijanatna hemija TDI Tuzla (manufacturing), “Natron” kombinat Maglaj (paper), Sipad Kljuc doo Kljuc (forestry), PD Majeveca Srebrenik (forestry), “Vranica” dd Sarajevo (construction), “Kalen” Zenica (trade), “Prodravka” doo Siroki Brijeg (trade), “Marketi” upi Sarajevo (trade), “Prehrana-Promet” doo Tuzla (trade), Sipad-Komerc Sarajevo (trade), “Feroelektro” dd Sarajevo (trade), “Market-komerc” dd Zenica (trade), JP Gradski Saobracaj Sarajevo (transport), Fabrika sode Lukavac (chemical), Klinicki centar univerziteta Sarajevo.

## 6. EXPORT AND IMPORT

The statistical data on foreign trade suffer from incomplete coverage. Table 6.1. shows trade by *sector or commodity* whereas Table 6.2. shows trade by *destination and origin*.

**Table 6.1. : Export and Import by sector/commodity (1999) in the Federation of BiH**

- x 1,000 KM -

	EXPORT (X)	IMPORT (M)	X/M
AGRICULTURE	7,247	213,343	0.03
FORESTRY	16,456	546	30.14
FISHERIES	0	635	0.00
MINING/QUARRYING	9,788	13,167	0.74
<b>MANUFACTURING</b>	<b>866,176</b>	<b>4,025,237</b>	<b>0.22</b>
- food and beverages	74,440	682,845	0.11
- tobacco products	599	22,535	0.03
- textiles	6,502	270,886	0.02
- clothing	134,973	123,084	1.10
- footwear and leather products	33,415	59,870	0.56
- wood products	169,389	38,807	4.36
- furniture	34,400	98,227	0.35
- pulp and paper	10,632	80,226	0.13
- publishing and printing	2,014	32,624	0.06
- coke, refined petroleum products	5,366	261,845	0.02
- chemicals	26,307	396,200	0.07
- rubber and plastic products	6,620	139,568	0.05
- non-metallic mineral products	6,956	212,017	0.03
- basic metals products	217,994	174,572	1.25
- fabricated metal products	24,285	164,158	0.15
- machinery	52,986	492,232	0.11
- office equipment and computers	2,311	69,568	0.03
- electrical machinery and apparatus	12,860	170,455	0.08
- radio, TV and communication equipment	5,220	110,749	0.05
- medical, precision & optical instruments	9,618	90,256	0.11
- motor vehicles, trailers and semi-trailers	21,293	312,154	0.07
- other transport equipment	7,996	19,359	0.41
ELECTRICITY	44,274	23,125	1.91
OTHER	6,272	182,923	0.03
<b>TOTAL</b>	<b>950,213</b>	<b>4,458,976</b>	<b>0.21</b>

The following conclusions can be drawn:

- The total export value of the Federation of BH is exceptionally low;

- Industrial goods constitute the bulk of Federation exports (96.8%) in 1999 and imports (91.17%);
- In turn, manufactured goods constitute the bulk of industrial exports and imports;<sup>31</sup>
- Export revenue covers only a fraction of import costs. Imports are still 4.7 times larger than exports.

The following manufacturing branches record significant export revenue, measured by *coverage of imports*: clothing, footwear and leather products, wood products, furniture, basic metal products, other transport equipment. This structure is mostly in line with the presumed **comparative advantage** of a developing country (entering in the league of lower middle-income countries). One exception, the poor export performance of the food-processing sector is out of line with the expected pattern.

**Table 6.2. : Export by destination and Import by origin**

- x 1,000 KM -

	EXPORT (X)	IMPORT (M)	(X - M) / (X + M)
1. EU countries	412,407	1,896,294	-0.64
<i>of which :</i>			
- Italy	198,730	826,913	-0.61
- Germany	124,408	555,541	-0.63
2. EFTA countries	115,729	103,320	0.06
3. USA	14,141	103,639	-0.76
4. Japan	25	59,684	-1.00
5. Other developed countries	1,768	22,187	-0.85
6. Hungary	6,400	175,120	-0.93
7. Slovenia	82,971	577,014	-0.75
8. Croatia	195,301	964,150	-0.66
9. Yugoslavia	60,710	17,282	0.56
10. Other countries	60,761	540,286	-0.80
<b>TOTAL</b>	<b>950,213</b>	<b>4,458,976</b>	<b>-0.65</b>

The Federation of BiH registered a trade deficit with virtually every country group, with the exception of EFTA and Yugoslavia. Exports to regional transition countries (former Yugoslavia, Hungary, Romania and Bulgaria) constitute 38 % of total exports. Imports from regional economies account for about 40 % of total imports. This percentage would be even somewhat larger were certain imports not linked to aid programs.

<sup>31</sup> According to data received from Customs authorities, consumer goods represent 80% of imports, whereas equipment and intermediary goods/materials account each for slightly over 9% of imports. A look at Table 6.1. (export/import by sector) suggests that the equipment share is underestimated.



# ANNEX-II-1

## GROSS OUTPUT IN 1997 AND 1998 (FEDERATION OF BiH)

- x 1,000 KM -

		GROSS OUTPUT		Share (%)		Index 1998 1997
		1997	1998	1997	1998	
A.	Agriculture, forestry	173,801	233,848	2.7	3.2	134.5
B.	Fisheries	3,153	3,722	0.1	0.1	
C.	Mining	223,688	260,890	3.5	3.5	118.0
	- <i>Extraction of energy raw materials</i>	168,607	197,314	2.7	2.7	117.0
	- <i>Quarries</i>	55,081	63,376	0.9	0.9	115.1
D.	<b>Manufacturing</b>	2,063,546	2,402,920	32.5	32.6	116.4
	- <i>Food, beverages, tobacco</i>	517,968	652,255	8.2	8.9	125.9
	- <i>Textiles, clothing</i>	104,508	103,253	1.6	1.4	98.8
	- <i>Leather, leather products</i>	58,466	53,577	0.9	0.7	91.6
	- <i>Wood processing</i>	182,316	214,762	2.9	2.9	117.8
	- <i>Paper, publishing</i>	111,269	161,622	1.8	2.2	145.3
	- <i>Production of coke and derivatives</i>	23,420	17,410	0.4	0.2	74.3
	- <i>Chemicals</i>	97,020	118,220	1.5	1.6	121.9
	- <i>Rubber products</i>	38,692	48,250	0.6	0.7	124.7
	- <i>Non-metal, mineral products</i>	118,116	159,809	1.9	2.2	135.3
	- <i>Basic metals and fabricated metal products</i>	369,778	450,563	5.8	6.1	121.8
	- <i>Machinery</i>	51,008	70,733	0.8	1.0	138.7
	- <i>Electrical machinery and optical equipment</i>	181,564	112,028	2.9	1.5	61.7
	- <i>Transport equipment</i>	55,522	53,609	0.9	0.7	96.6
	- <i>Other manufacturing</i>	153,898	186,828	2.4	2.5	121.4
E.	Electrical energy supply	507,427	714,478	8.0	9.7	140.8
F.	Construction	874,006	1,125,180	13.8	15.3	128.7
G.	Trade	1,388,294	1,327,629	21.9	18.0	95.6
H.	Catering	113,251	106,112	1.8	1.4	93.7
I.	Transport, storage & communications	603,464	768,586	9.5	10.4	127.4
K.	Real estate business	323,354	335,873	5.1	4.6	103.9
L.	Public Administration and defense	857	270		-	31.5
M.	Education	395				-
N.	Health care and welfare	13,082	11,468	0.2	0.2	87.7
O.	Other social services	55,347	78,108	0.9	1.1	141.1
	<b>TOTAL</b>	<b>6,343,664</b>	<b>7,368,885</b>	<b>100</b>	<b>100</b>	<b>116.2</b>

## ANNEX-II-2

## VALUE ADDED IN 1997 AND 1998 (FEDERATION OF BiH)

- x 1,000 KM -

		VALUE ADDED		Share (%)		Index 1998 1997
		1997	1998	1997	1998	
A.	Agriculture, forestry	85,040	113,342	3.2	3.7	133.3
B.	Fisheries	1,445	1,963	0.1	0.1	135.1
C.	Mining	100,621	108,649	3.8	3.5	108.0
	- Extraction of energy raw materials	77,058	82,914	2.9	2.7	107.6
	- Extraction of stone ores	23,564	25,149	0.9	0.8	106.7
D.	<b>Manufacturing</b>	806,642	805,212	30.3	26.0	99.8
	- Food, beverages, tobacco	202,830	259,043	7.6	8.4	127.7
	- Textiles and clothing	42,331	47,728	1.6	1.5	112.7
	- Leather, leather products	27,242	24,646	1.0	0.8	90.5
	- Wood processing	53,016	59,164	2.0	1.9	111.6
	- Paper, publishing	40,266	61,633	1.5	2.0	153.1
	- Production of coke and derivatives	36,366	7,026	1.4	0.2	19.3
	- Chemicals	43,306	36,227	1.6	1.2	83.7
	- Rubber products	10,754	11,396	0.4	0.4	106.0
	- Non-metal mineral products	41,569	64,752	1.6	2.1	155.8
	- Basic metals and fabricated metal products	154,727	99,784	5.8	3.2	64.5
	- Machinery	20,669	28,292	0.8	0.9	136.9
	- Electrical machinery and optical equipment	95,664	38,325	3.6	1.2	40.1
	- Transport equipment	18,139	15,973	0.7	0.5	88.1
	- Other manufacturing	50,451	51,222	1.9	1.7	101.5
E.	Electrical energy supply	215,335	351,471	8.1	11.3	163.2
F.	Construction	239,451	325,367	9.0	10.5	135.9
G.	Trade	725,056	763,880	27.2	24.7	105.4
H.	Catering	52,413	47,790	2.0	1.5	91.2
I.	Transport, storage & communication	309,619	425,759	11.6	13.7	137.5
K.	Real estate business	95,676	108,243	3.6	3.5	113.1
L.	Public Administration and defense	642	43	-	-	6.7
M.	Education	187	65	-	-	34.8
N.	Health care and welfare	4,913	5,028	0.2	0.2	102.3
O.	Other social services	27,393	40,985	1.0	1.3	149.6
	<b>TOTAL</b>	<b>2,664,432</b>	<b>3,097,754</b>	<b>100</b>	<b>100</b>	<b>116.3</b>

## STRUCTURE OF INDUSTRIAL PRODUCTION (FEDERATION OF BiH)

	Structure in %		
	1991	1997	1998
<b>B. TOTAL INDUSTRY</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>C. MINING</b>	12.04	13.03	12.88
- <i>Extraction of coal</i>	8.31	10.63	10.66
- <i>Extraction of other ores and stone</i>	3.00	2.40	2.22
<b>D. MANUFACTURING</b>	73.99	56.37	59.13
- Food and beverages	10.26	16.43	14.73
- Tobacco products	1.95	3.00	3.03
- Textiles	2.73	0.88	0.99
- Clothing	5.95	5.78	6.14
- Footwear, leather products	2.03	3.22	1.99
- Wood processing	4.36	5.31	5.01
- Paper	3.35	0.92	0.75
- Publishing	1.23	1.22	1.20
- Production of coke, oil derivatives	0.67	0.67	0.03
- Chemicals	5.86	1.79	2.08
- Rubber and plastic products	1.66	0.66	0.64
- Non-metal mineral products	2.90	3.82	4.46
- Basic metals	14.99	3.30	9.29
- Fabricated metal products	3.06	3.08	3.73
- Machinery	2.37	0.52	0.54
- Electrical machinery & appliances	0.91	0.68	0.48
- TV & communication equipment	0.01	0.15	0.04
- Medical, precision, optical instruments	0.21	0.03	0.07
- Motor vehicles, trailers	4.72	1.11	1.51
- Other transport equipment	0.41	0.03	0.03
- Furniture	3.64	2.78	2.11
- Recycling	0.38	0.26	0.29
<b>ELECTRICAL ENERGY, GAS, WATER SUPPLY</b>	13.97	30.60	27.99